

# Public Utilities

*FORTNIGHTLY*

Volume XLIII No. 2



January 20, 1949



## THE FEDERAL GOVERNMENT'S HIGH COST OF LIVING

By the Honorable Harry Flood Byrd  
United States Senator

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## Keeping the Utility Investor in a Happy Mood

By Harold H. Young

« »

## Outlook for State Legislation Affecting Public Utilities

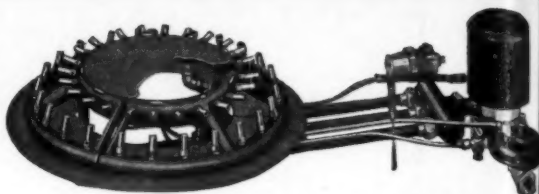
By Bethune Jones

« »

## Public Utilities in the White House

By Roscoe Ames

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# Public Utilities

## FORTNIGHTLY

VOLUME XLIII

JANUARY 20, 1949

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### PUBLIC UTILITIES REPORTS, INC., PUBLISHERS


**Publication Office** ..... CANDLEY BLDG., BALTIMORE 2, MD.  
**Executive, Editorial and Advertising Offices** . . . MURSEY BLDG., WASHINGTON 4, D. C.

Entered as second-class matter April 29, 1915, under the Act of March 3, 1879, at the Post Office at Baltimore, Md., Dec. 31, 1936. Copyrighted, 1949, by Public Utilities Reports, Inc. Printed in U. S. A.

Address all communications concerning the FORTNIGHTLY to the publishers at Munsey Building, Washington 4, D. C.

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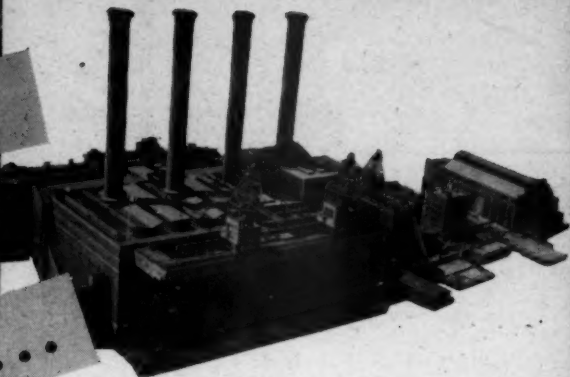
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## Pages with the Editors

**L**AST spring, former President Herbert Hoover, with his customary genius for common-sense analysis, made some very penetrating comments on the Federal budget after World War I and after World War II. He pointed out that three years after World War I the budget was \$4 billion a year, whereas three years after World War II it is \$40 billion a year.

THIS comparison makes us wonder just why our political leaders assume that the nation can bear an operating load ten times as great as it did a mere quarter of a century ago. Admittedly, we have as a nation adopted domestic reforms such as social security which require a permanently higher level of Federal expenditure. But in no way has the improvement of our underlying economic factors been anywhere near commensurate with this tenfold boost in the budget.

OUR national income has increased at a splendid pace, even in excess of our growth of population. Our employment stands at or near an all-high record, but the national debt and the Federal budget—in short, government spending for both debt and operating expenses—

have skyrocketed away up and beyond any other economic factor. Mr. Hoover concluded that "there are insufficient savings left in the hands of the people to repair, maintain, and improve the tools of production and distribution upon which our standard of living depends." These figures clearly show the need for important structural changes in the government to secure maximum efficiency and economy.

**P**ROBABLY the most tireless of all believers in and fighters for economy in Federal government operations is the senior United States Senator from Virginia, HARRY FLOOD BYRD, whose article on the high cost of government spending opens this issue. SENATOR BYRD was born in Martinsburg, West Virginia, and was educated at the Shenandoah Valley Academy in Winchester, Virginia. He was elected to the Virginia state senate in 1915, where he served until he was elected governor of the commonwealth for the term 1926-30. He was appointed to the U. S. Senate by ex-Governor Pollard in 1933 to fill the unexpired term of the late Claude A. Swanson, who resigned to become Secretary of the Navy.

SENATOR BYRD was reelected for a full term in 1934 and for two additional terms in 1940 and 1946. Among his various collateral activities is that of newspaper publisher, farmer, and apple grower. He now makes his home at Berryville, Virginia, in the famed Winchester orchard area.

\* \* \* \*

**T**HIS is the month of inaugurations and openings of legislative sessions, not only in the nation's capital, but so many of our state capitals. It is the "big year" for the state biennial sessions during which at least 44 state capitals will play host to regular sessions of their legislatures. No doubt before the year is out several more will play host to special sessions. For this reason we welcome a preview, even though necessarily general in scope, of things likely to come up in these



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HARRY FLOOD BYRD

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state capitals of special interest to public utility industries. This is contained in the article beginning on page 83 by BETHUNE JONES, professional writer and legislative research expert, residing at Red Bank, New Jersey.

\* \* \* \*

**S**PEAKING of inaugurations, Harry S. Truman is the thirty-second President to take oath to support the Constitution of the United States in the office of Chief Executive. His inaugural celebration of this ceremony in his own elected right takes place in Washington this month at a time when the White House is so torn up with carpenters' scaffolds and uncovered masonry that the President has to live across the street (Pennsylvania avenue) in the nation's official guest mansion—Blair-Lee.

THUS, for the first time in many inaugurations the East Room and other facilities of the White House are in no condition to house the receptions and various celebrations incident to the inaugural ceremonies. Among other things which these pending improvements in the White House will encompass are its public utility facilities—better wiring, heating, air conditioning, communications, and so forth.

All of which prompted us to assign, for completion in time for this issue, an article which would deal with the coming of various public utility services to the White House since it was first built around the turn of the Eighteenth Century. The result is the article by ROSCOE AMES, beginning page 92. We regret that limitations of space precluded a number of interesting historical items about the White House occupants of former years which had nothing to do with its public utility services.

It was perhaps inevitable with the passing years that the White House should become a combination modern town house and office building. Still we read with a twinge of nostalgia of the more simple eras reviewed in this article when Congressmen "tramped in and out of the place virtually at will," and Martin Van Buren found it necessary to make

JAN. 20, 1949



HAROLD H. YOUNG

strict rules to keep himself and family from living in a public museum. Even so, compared with the Kremlin, the White House today is, or will be, a gold-fish bowl, relatively speaking.

\* \* \* \*

**H**AROLD H. YOUNG, author of the article in this issue on "Keeping the Utility Investor in a Happy Mood" (see page 75), was recently made a partner in the investment firm of Eastman, Dillon & Co. in New York city. For a number of years he has been associated with this firm as a special analyst of public utility securities, and for nearly a quarter of a century he has been in the investment business. He lectures on current developments in utilities before the New York Institute of Finance, and is responsible for the public utility forums of the New York Society of Security Analysts.

\* \* \* \*

**I**MPORTANT decisions, preprinted from *Public Utilities Reports*, may be found in the back of this number.

THE next number of this magazine will be out February 3rd.

*The Editors*

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# Coming IN THE NEXT ISSUE



## **AN ADJUSTMENT CLAUSE FOR TAXES**

With taxes already high and likely to go higher, utility management will want to know more about the plan of W. Truslow Hyde, Jr., industrial financial specialist, for easing some of the headaches of economic operations in the future.

## **PUBLIC UTILITY STATISTICS AS BUSINESS INDICATORS**

Here is an interesting tale of how cold-blooded statistics in utility files function as reliable gauges as to the economic health of a community. It is written by Herbert Bratter, Washington, D. C., author of business articles.

## **PUBLIC UTILITY STATUS OF COMMERCIAL AIR LINES**

Selig Altschul, well known in aeronautical management circles, tells us a story of how the commercial air lines are coming slowly but surely under the conventional rule of public utility regulation.

## **THOMAS EDISON'S 102 YEARS**

Two years ago we celebrated the centennial of the greatest utility pioneer of all. John C. F. Coakley, historian, Edison Pioneers, gives us interesting new reasons for observing the memory of this great American inventor.



**Also . . .** *Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.*



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In one company after another, the *group-conference system* has proved to be a profitable method for training supervisors to . . .

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# Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

C. DONALD DALLAS  
*Chairman, Revere Copper & Brass,  
Inc.*

"You can make laws to protect freedom but you cannot control freedom and retain it."

R. C. LEFFINGWELL  
*Chairman, J. P. Morgan &  
Company.*

"We must cling to the good ways, the free ways, the enterprising ways of our people."

A. L. M. WIGGINS  
*Former Under Secretary of the  
Treasury.*

"The constituents want it both ways—plenty of economy for you; plenty of spending for me."

FRED G. CLARK  
*Chairman, American Economic  
Foundation.*

"The fight to defend our way of life cannot be won by force. It can only be won by reason."

HARRY A. BULLIS  
*Chairman, General Mills, Inc.*

"[The election showed that business] has got to go out and tell the public more about its operations."

*Excerpt from annual review of  
Bankers Trust Company of United  
States government securities and  
the money market.*

"Since the early Thirties the Federal government has been following an inflationary course which is now bearing bitter fruit."

FRANK C. MOORE  
*New York State Comptroller.*

"A system of Federal aid which diminishes the independence and responsibility of local government is not worth the cost."

ERWIN H. SCHELL  
*Professor, Massachusetts Institute  
of Technology.*

"... it is now obvious that in the creative world of tomorrow industry must draw upon the creativeness of all whose interests relate to the business."

J. B. WALLACH  
*Business news editor, The (New  
York) Sun.*

"If business itself is suspect, no business will strive to grow because growth only can lead to ultimate destruction. No more effective deterrent to enterprise, efficiency, and vision could be devised."

EDITORIAL STATEMENT  
*The Journal of Commerce.*

"We must beware of reformers who, to achieve a theoretical ideal, agitate for changes in long-established ways of doing business without consideration of the practical difficulties and consequences."

# Snow Tonight Clear Tomorrow



Snow Tonight—Clear Tomorrow is much more than a weather forecast. It's an ideal slogan for the thousands of GMC trucks that work while we sleep to keep the highways open for safe travel.

GMC extra value shows up best when working conditions are at their worst . . . because chassis are truck-designed and truck-engineered from radiator to rear axle . . . because power plants have the same basic design and features as those of the durable and dependable GMC "Army Workhorse" engine.

Whether your hauling job calls for "tough going" or "smooth sailing" . . . the extra stamina built into every GMC means extra months and miles of dependable, economical operation.

GMCs are available in light, medium and heavy duty models . . . in a range of seven gasoline and two Diesel engines . . . and with chassis and equipment options that permit truck and tractor types exactly suited to every public utilities hauling job.

THE TRUCK OF VALUE



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## REMARKABLE REMARKS—(Continued)

ROBERT N. McMURRY  
*Business psychologist.*

"While academic achievement is desirable, it is not necessarily a sign of ability to work face to face with other people in ordinary business situations."

HERBERT HOOVER  
*Former President of the United States.*

"... it is those moral and spiritual qualities which rise alone in freemen which will fulfill the meaning of the word American. And with them will come centuries of further greatness to our country."

DWIGHT D. EISENHOWER  
*President, Columbia University.*

"Today's challenge to freedom and to every free institution is such that none of us dares stand alone. For human freedom is today threatened by regimented statism. The threat is infinitely more than that involved in opposing ideologies."

HAROLD G. MOULTON  
*President, Brookings Institution.*

"Certain naturally monopolistic industries, such as public utilities, where competition is impracticable and undesirable, obviously require regulations. In other areas, regulation must be designed to preserve and strengthen the competitive system."

JOSEPH C. O'MAHONEY  
*U. S. Senator from Wyoming.*

"I know of nobody in responsible position in the government, or who is likely to be in responsible position in government, who desires that the Federal authority shall be expanded to take over any activities that can be better performed by the people themselves."

EDITORIAL STATEMENT  
*The Wall Street Journal.*

"It is one of the characteristics of the revolutionist that he will carry out his policies with the consent of the people if he can get it. But if he fears he cannot get it, then he is perfectly willing to short-cut usual and accepted practices and impose his ideas regardless of popular choice."

ERWIN D. CANHAM  
*Editor, The Christian Science Monitor.*

"The worst danger to world peace is the insidious assumption that war is inevitable. War is not likely, but the American people must be prepared for any eventualities, and at the very least must adjust themselves to a possibly protracted uneasy period in world affairs. [The best preventive of war is] a strong United States and a steadily strengthening and unifying western Europe."

SHERWOOD B. GAY  
*President, Tanners' Council of America.*

"The basic issues in the world today arise from statism and the extension of government influence in economic spheres of activity. In this country we have found that when human effort and initiative are given maximum scope, the results in production and living standards reach heights unprecedented in history. I believe that philosophy will continue dominant because its achievements economically and morally cannot be challenged."

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PRE-ENGINEERED SPRING  
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Selecting hangers for piping subject to thermal movement is completely simplified. Grinnell Pre-Engineered Spring Hangers are available in stock sizes for any load requirement.

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The maximum variation in supporting force per  $\frac{1}{4}$ " of deflection is  $10\frac{1}{2}\%$  of rated capacity—in all sizes.

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Compact—minimum headroom made possible by precompression\*.

Precompression\* assures operation of spring within its proper working range where variation in supporting force is at a minimum.

All-Steel welded construction meets pressure piping code. 14 sizes available from stock—load range from 84 lbs. to 4,700 lbs.

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Unique swivel coupling provides adjustment and eliminates turnbuckles.

\*Precompression is a patented feature.

Write for descriptive folder on Pre-Engineered Spring Hangers Fig. 268.

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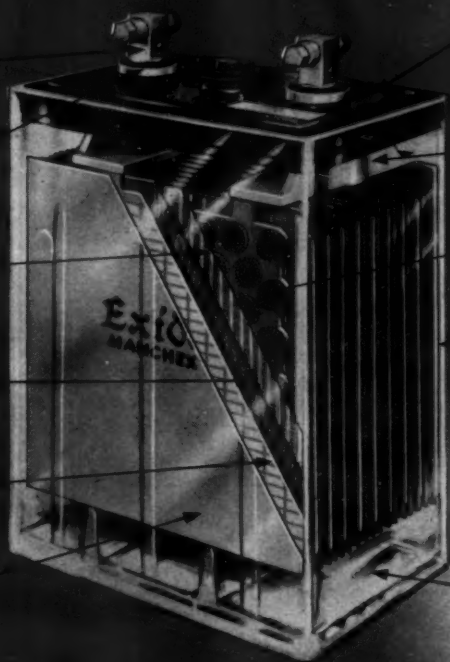
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Ten years in the making, the advent of the Exide-Manchex Battery is based on two things—the desire to use materials to greater advantage and provide a battery that would be more efficient with greater life. After years of research and rigorous testing, the following combination of major items that make up a storage battery was selected for use in the new Exide-Manchex.

**THE MANCHESTER POSITIVE PLATES** of unique lead button construction. The buttons ... rolled strips of corrugated soft lead ... are pressed into holes of the lead-antimony grid. Forming action expands the buttons and locks them securely in place. Only a comparatively small portion of the total lead in the button is formed initially into active material ... the balance is available for gradual conversion in service, this button construction is an exclusive Exide feature which results in exceptionally long life.

**THE PERMANIZED® NEGATIVE PLATES** constructed of a lead-antimony grid ... or framework ... with a series of vertical ribs connected by short horizontal bars. Bars are flush with plate surface ... extend only part way through the plate ... are staggered on opposite sides. The active material ... sponge lead ... is formed of vertical strips or ribbons that extend from top to bottom of the plate between the vertical ribs and is locked in place by the horizontal bars. A type that has proved its merits in every kind of stationary service ... developed to match the long life of the manchester positive plate.

**SEPARATORS** Selected fine grain, knot-free wood separators, specially treated ... teamed with low resistance slotted plastic separators ... assure excellent high discharge characteristics under all operating conditions.

**TERMINAL POST ASSEMBLY** The design effectively seals the opening through the covers—preventing electrolyte seepage ... heavy strap and post castings with copper inserts in the larger sizes provide low resistance electrical path from plates to terminal.

**COVER** Deep seal covers of tough rubber designed to give trouble-free service.

**MOLDED GLASS JAR** Exclusive with Exide—the most modern in the battery industry ... strong, uniform in dimension ... clear glass for easy inspection and maintenance ... straight-sided for compact assembly, neat appearance.

### Where to use the new Exide-Manchex Battery

The new Exide-Manchex Battery with its high 1 minute rating is ideally suited for control bus and switchgear operation. Its use is equally suited for Emergency Lighting and Power and other storage battery tasks. The new Exide-Manchex Battery will provide up to 100% more capacity in the same size space.

# Exide

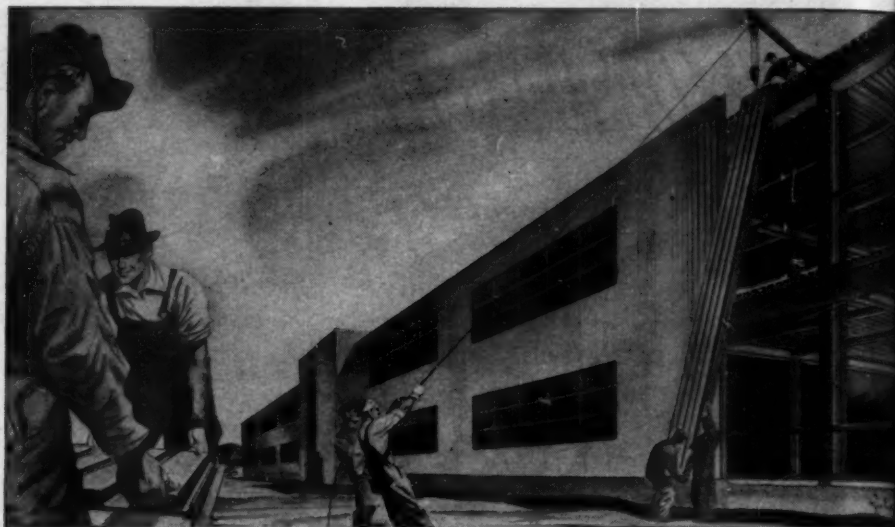
BATTERIES

1888... Dependable Batteries for 61 Years... 1949

THE ELECTRIC STORAGE BATTERY COMPANY, Philadelphia, Pa.  
Exide Batteries of Canada, Limited, Toronto



what we really make is time!



**it's faster to hang a wall than to pile it up...**

Little blocks, say 2" x 4" x 8", don't pile up very fast.

We hang walls up in sizable panels.

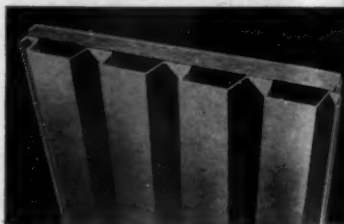
And that is an easy way to understand why Robertson's real product is *time*.

We make walls that are hung in place. We make them complete with insulation when the panels are delivered. We engineer them piece by piece in advance at the factory. We put expert crews on the job to place them.

We make time, now, when time is the essence.

We save days and weeks in finishing a building for use, because years have been put into the development of these unique skills.

*Quick* is the word we practice.



Q-Panels are fabricated from Galbestos, aluminum, stainless steel, galvanized and black steel in lengths up to 25'.

Q-Panels, 3" in depth with 1 1/4" of incombustible insulation, have a thermal insulation value superior to that of a 12" dry masonry wall with fired plaster interior. A single Q-Panel with an area of 50 sq. ft. can be erected in nine minutes with a crew of only five men, and twenty-five workmen have erected as much as an acre of wall in three days.

Q-Panel construction is quick, dry, clean, and offers an interesting medium of architectural expression.

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**I**F in conjunction with your next annual meeting—or at some contemplated special meeting—proposals other than routine are to be voted upon—to raise debt ceiling—authorize new securities—grant conversion privilege for convertible bonds, etc.—can you feel confident that your stockholders will support management's recommendations with adequate votes of approval—on time?

Such an important meeting frequently merits provision of special handling—utilizing the services of our proxy soliciting organization as a form of insurance that the meeting will be successfully held on scheduled date.

Our record of performance for the utility industry is outstanding. We invite your inquiry for additional information.

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*National or Sectional Coverage*

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**DUDLEY F. KING**

**Associates:** JOHN H. C. TEMPLETON • CHARLES A. NICHOLLS • PHILIP H. CARPENTER

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# Here's what "Job-Rated" means to public utilities . . .



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"Job-Rated" means your truck will have the right power, with economy of performance. It will have the right one of 7 great Dodge truck engines. You save on gas, oil, and maintenance.

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**TRUCKS**

FIT THE JOB . . . LAST LONGER

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# Utilities Almanack



JANUARY



20	T <sup>a</sup>	† Associated Equipment Distributors end annual meeting, Chicago, Ill., 1949.
21	F	† American Water Works Association, New York Section, begins one-day annual midwinter luncheon meeting, New York, N. Y., 1949. 
22	S <sup>a</sup>	† Edison Electric Institute, Transmission and Distribution Committee, will hold meeting, Cincinnati, Ohio, Feb. 10, 11, 1949.
23	S	† Canadian Construction Association begins meeting, Toronto, Ontario, Canada, 1949.
24	M	† American Society of Heating and Ventilating Engineers begins meeting, Chicago, Ill., 1949.
25	T <sup>a</sup>	† Academy of Television and Sciences holds annual award banquet and seminar, Hollywood, Cal., 1949.
26	W	† Missouri Valley Electric Association will hold power sales conference, Kansas City, Mo., Feb. 10, 11, 1949.
27	T <sup>a</sup>	† American Gas Association, Home Service Workshop, ends annual convention, Cleveland, Ohio, 1949.
28	F	† International Heating and Ventilation Exposition ends, Chicago, Ill., 1949. 
29	S <sup>a</sup>	† Edison Electric Institute, Electrical Equipment Committee, will hold meeting, St. Louis, Mo., Feb. 14, 15, 1949.
30	S	† American Water Works Association, New Jersey Section, will hold annual luncheon meeting, Newark, N. J., Feb. 17, 1949.
31	M	† American Institute of Electrical Engineers begins annual winter general meeting, New York, N. Y., 1949.



FEBRUARY



1	T <sup>a</sup>	† Pennsylvania Electric Association, Transmission and Distribution Committee, will hold annual meeting, Philadelphia, Pa., Feb. 24, 25, 1949.
2	W	† American Society for Testing Materials will hold spring meeting and committee week, Chicago, Ill., Feb. 28-Mar. 4, 1949.



Working "Hot" at Ten Below

Midcenter installation of 69,000-volt arrester.

VOL.

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Courtesy: Wisconsin Power & Light Company  
Photo by H. F. Palmer

# Public Utilities

*FORTNIGHTLY*

VOL. XLIII, No. 2



JANUARY 20, 1949

## The Federal Government's High Cost of Living

Why the staggering expense of the proposed social policies, if carried out, would involve a return to deficit financing at the highest level of the country's prosperity and endanger our free enterprise system. Responsibility of the people's representatives to keep America sound and solid.

BY THE HONORABLE HARRY FLOOD BYRD\*

U. S. SENATOR FROM VIRGINIA

CHAIRMAN OF THE JOINT COMMITTEE ON REDUCTION  
OF NONESSENTIAL FEDERAL EXPENDITURES

THE element of surprise at the outcome of our 1948 presidential election may be compared to that which attended the results of the British election in 1945 when their Labor party turned out the Churchill government.

Whether the analogy between the current courses of the American and British governments is to be extended beyond the mere counting of the votes depends upon how the mandate of our

election is interpreted in terms of policies ultimately enacted under the new administration.

Of course the British moved immediately to the socialization of their basic industries along with other reforms. I do not believe, for a moment, that the American electorate in 1948 intended to express a wish for that. But it should be realized that there are those who believe we have reached a point from which there is no return in the social revolution we set in motion during the Thirties, the ultimate end of

\*For additional personal note, see "Pages with the Editors."

## PUBLIC UTILITIES FORTNIGHTLY

which would be the fall of the free enterprise system.

Whether the electorate intends it or not, this will occur when the system can no longer survive government competition, when the profit motive is strangled by government controls, when we can no longer carry the tax burden imposed upon us, or when the government becomes insolvent.

Whatever the electorate may have had in mind last November, there are those in Congress—and outside—who now are contending that the election was a mandate to:

- Nationalize education.

- Socialize medicine.

- Further federalize reclamation and power.

- Further subsidize agriculture.

- Extend social security.

- Placate radical labor.

- Increase taxes on industry.

- Reimpose economic controls.

- Impose Federal sanctions against traditional rights of states.

**I**N themselves these may not constitute socialization of our democracy, but they are obviously steps in a going trend toward Federal competition in business, Federal economic control, and increasing the cost of Federal government.

What the ultimate cost of these proposals would be, no one knows; but estimates on federalization of education, for instance, run from \$300,000,000 a year to several billion. None of the proposals would be in the nature of short-term outlays. All of them would be additional long-term domestic civilian commitments. The Federal government is already committed to programs of this category which cost \$18½ billion a year, exclusive of payroll.

JAN. 20, 1949

When these programs are combined with our tremendous military and foreign commitments, against the background of a quarter trillion dollar debt, the magnitude of the permanent tax take to be required is bound to affect our free enterprise system.

There is absolutely no partisanship in my outlook on the vital financial problems facing the nation. The plain figures, as gathered by either Democrats or Republicans, so-called liberals or so-called reactionaries, all point to one fiscal fact — the Federal government's expenditures are going up year by year and within the next two fiscal years they may reach the amazing total of \$50 billion, unless there is retrenchment in some of the existing or proposed programs.

### *Can Uncle Sam Cut Costs?*

**S**O the question—can Uncle Sam cut his living costs?—is not an academic one. It is a question which ultimately may determine whether our form of government is to survive.

Back two years ago, when the President submitted a peacetime budget of \$37.5 billion to Congress — accompanied by the statement that it could not be cut a single dollar—there were widespread rumblings in the Republican Congress. Some in both parties hoped that the proposed budget could and would be cut. A few token cuts in this and that direction were made, but, as a matter of history, the Federal government spent more in that fiscal year than the President had asked Congress to appropriate initially.

When, a year ago, the President submitted a \$39.5 billion budget, the Republicans then in control again promised "some cuts." One Republi-



## THE FEDERAL GOVERNMENT'S HIGH COST OF LIVING



### Increase in TVA Employees

**“A**t the peak of World War II activity—in July, 1945—when TVA, according to its own press releases, was doing a tremendous war job, the agency was operating with 12,349 employees. In October, 1948, TVA had 14,352 employees on its payroll, an increase of 2,003.”

can legislator said that he would use a “meat axe” and “a cleaver” on the budget. He tried—but not enough of his colleagues went along with him. How much this year’s expenditures will total is still undetermined.

The President’s new budget recommendations cover his initial expenditure estimates for fiscal year 1950, beginning July 1, 1949. Supplements may be expected. I predicted a year ago that Federal expenditures in fiscal 1950 would exceed \$45 billion and that in fiscal year 1951 they would approach \$50 billion. I see nothing in the current situation to indicate downward revision of these projections. There is no reduction in the pressures for foreign and military expenditures, and pressure for domestic civilian expenditures is increased.

The figures on which I base my predictions do not include possible increases in appropriations for present domestic projects and the beginning of new projects for rivers and harbors,

flood control, and other public works.

### The Threat of Deficit Financing

**I**F Federal expenditures continue to increase, as they give every evidence of doing, the question will no longer be one of how much to increase taxes. It will be one of embarking on a period of deficit financing at the highest level of prosperity this nation has ever known.

Let every thoughtful citizen ponder the results that would follow destruction of the confidence the American people have in the ability of the government to finance its obligations. We must never forget that a few points of loss in the value of government bonds will bankrupt most of the financial institutions of the country. It is imperative, in view of our national indebtedness of more than \$250 billion, that we pay as we go and, if possible, make reductions in the public indebtedness.

Yet, the trend seems to be ever toward the practice again of deficit fi-



## PUBLIC UTILITIES FORTNIGHTLY

nancing, in order to please the various groups who demand Federal expenditures for their benefit, but oppose taxes which apply to them. We have embarked on a huge overseas spending and lending program. We are embarking on a revision of guaranteed farm prices. We are considering ways to reward city people through price control without openly using government payments and, in order not to lose whatever political influence accrues to those friendly with nonessential employees, the government continues to tolerate countless drones on its payrolls.

Pleasing pressure groups is practiced even on a regional or a state basis. The Tennessee Valley Authority, admittedly a popular agency among those who benefit from it, is still receiving government support. Western reclamation projects, perhaps proper in a time of slack construction on the part of private builders, are to be stepped up at a time when there is the greatest possible demand on private building facilities for men, money, and materials.

### *Proliferation of Federal Employment*

ONE of the jobs of the Joint Congressional Committee on Reduction of Nonessential Federal Expenditures has been to keep check on Federal employment. In the life of our committee, we have seen Federal civilian employment at home and overseas increase, during the war, to the incredible figure of 3,749,578. This was in July, 1945, at the height of World War II.

It is interesting these days—three and a half years after the end of the war—to examine the payrolls of various agencies in an effort to find retrenchment. Of course, the armed services cut off tens of thousands of

civilian employees, used principally in war production work, which stopped automatically with VJ-Day. And the various agencies, such as the Office of Temporary Controls, War Assets Administration, Selective Service System, Maritime Commission, and the Reconstruction Finance Corporation, no longer could justify their purely war-connected personnel. The over-all number of Federal personnel went down to less than 2,000,000. But on the committee we have observed an interesting phenomenon. Federal employment in the regular peacetime agencies, as a whole, since the war has remained roughly at twice the prewar level. And, in fact, civilian employment by regular government agencies, exclusive of the military establishment, has increased since VJ-Day. Uncle Sam began hiring employees at the rate of some 3,700 a week during the first six months of 1948.

Committee studies show that various agencies connected with electric power regulation, manufacture, and distribution not only never did cut off any of their so-called war personnel, but actually they have increased the size of their staffs since the high point of World War II. For example, the Federal Power Commission, which had 651 employees during the World War peak (July, 1945), in October, 1948, employed 828 persons—an increase of 177 over the war peak.

IN the Department of the Interior, three bureaus concerned with construction and control of generating and distributing facilities in the West, the Bonneville Power Administration, the Bureau of Reclamation, and the Southwestern Power Administration, had a

## THE FEDERAL GOVERNMENT'S HIGH COST OF LIVING

total of 8,897 employees in July, 1945, the very peak of World War II. In October, 1948, these same agencies in the Department of the Interior had 25,466 employees, an increase of 16,569 over the war peak.

At the peak of World War II activity—in July, 1945—when TVA, according to its own press releases, was doing a tremendous war job, the agency was operating with 12,349 employees. In October, 1948, TVA had 14,352 employees on its payroll, an increase of 2,003.

I do not want to be an alarmist. But the plain facts of Federal spending and employment are so alarming, I cannot help being anxious about our whole system of government and enterprise, if the present trend continues. I am sure we will not intentionally vote ourselves into Socialism or Communism. Yet, it seems likely that we may acquiesce in policies that inevitably will lead us away from the system which has made us a great nation.

As Federal tax rates increase, the amount of private savings left for investment will decrease, thus making more and more intolerable the position of the great industries and utilities which rely largely upon the availability of "risk capital" to keep pace with progress.

### *Growth of Federal Subsidies*

THERE is another facet of this problem which is as engrossing as it

is dangerous. That is the growth of Federal subsidies and grants to numerous businesses, agricultural interests, individuals, groups, states, and other political subdivisions. Our committee has made a continuing study of Federal subsidies and grants of all kinds, and it is possible to make a case for Federal subsidies and grants in a depression period when money is needed to relieve distress and oil the wheels of commerce. But such a case hardly could be made at a time of great prosperity.

Yet, the facts and figures gathered by the joint committee prove that such Federal subsidies and grants, as a whole, far from decreasing, actually have been increasing in every year of our postwar prosperity. A state-by-state breakdown of all subsidies and grants paid by the Federal government shows an almost unbelievable increase in amounts in the past three years.

Few of us realize how much money is being funneled out of our pockets by the Federal tax collector, then funneled by the government back into the pockets of different citizens on the block, or in the town. The total runs into the billions of dollars for all groups and political subdivisions.

IT would seem that we should have learned by now that such a process is exceedingly expensive. Every time a bureaucrat handles a dollar, he adds a service charge—his "take." But the delusion still persists that it is possible

**Q** "If Federal expenditures continue to increase, as they give every evidence of doing, the question will no longer be one of how much to increase taxes. It will be one of embarking on a period of deficit financing at the highest level of prosperity this nation has ever known."

## PUBLIC UTILITIES FORTNIGHTLY

for bureaucrats to spend our money more efficiently and more economically than we can do it for ourselves.

Alexander Hamilton, writing in the *Federalist* series 150 years ago, gave us a good clue as to why some like the idea of subsidies and grants, and actually support increases in subsidies instead of working to lower or eliminate them.

"In the general course of human nature," Hamilton wrote, "a power over a man's subsistence amounts to a power over his will."

Another fact about subsidies and grants is that they are deadening to the conscience of those who receive them. The recipient of the subsidy or grant does not realize it, perhaps, but every time he cashes and uses the subsidy or grant check, his scruples against accepting bounties from the government become less distinct. Thus, not one but millions of Americans become less and less aware of the distinction between the money they receive from the government and the money they earn.

### *Responsibility of People's Representatives*

THE cost of the Federal payroll today, exclusive of the money paid to soldiers, sailors, and aviators, is more than \$6 billion annually. This sum is almost twice the total annual cost of the entire Federal establishment when I was sworn in as a Senator on March 4, 1933. Since then we have undertaken obligations that could destroy our free enterprise system. The private enterprise system is the founda-

tion stone, and a fundamental of our freedom. It is the base on which the great glories of our Republic have been achieved. I do not believe we can maintain that private enterprise system and collect annually more than \$50 billion in Federal taxes, and, in addition, tax our citizens for \$13 billion or more for local and state expenditures, making a total of roughly \$65 billion to be drained out of our economy by government each year.

The most sacred responsibility of every representative of the people is to keep America sound and solid. Neither our own people nor those who seek our aid should ever forget that the might of America lies in our strength here at home—our fiscal solvency, our productive capacity under the free enterprise system, and our ability to finance our obligations without crushing taxation. Our financial stability is far more urgent for our own security and for freedom in the world than any program of public works at home or international subsidies abroad that severely strain our economy.

Financial instability in the United States would serve the enemies of representative government far more than any weapon our enemies could devise. By the same token, our financial soundness is the only hope of those who seek our help. Without it, there would be no bulwark against Communism, and freedom could not survive here or elsewhere. If the fiscal stability of America cracks—as it certainly will unless all of us awaken to the forces around us—freedom in the whole civilized world will suffer or fall.



## Keeping the Utility Investor In a Happy Mood

*Financing complications of the future make it more important than ever for utility management to seek ways and means for making securities more appealing. It is a challenging situation, but with a huge construction program ahead it is a task which must be faced. Improving earnings prospects for equity securities seem to be the only key to the solution.*

By HAROLD H. YOUNG\*

ON a recent western trip, this writer sat across the desk from an officer of a bank in a Pacific coast state and heard him say that public utility common stocks were not approved for purchase by the trust funds handled by the bank because the utility industry "is not a growth industry." He went on to explain this statement, certainly surprising on its face, by saying that he was referring to growth of earnings available for the common stock equity. He said that the increase in business and revenues of the utility companies was recognized, but the fact that it was not translated into growing earnings for the stockholders made the officials of the bank feel that utility common stocks were not fundamentally desirable for their purposes.

It is all too true that the situation to which this reference was made has been existing in the recent past. Obviously, there are individual companies which have been making good progress but the industry as a whole has had great trouble in increasing the bottom-line figures of the income statement. Composite figures prepared by the Federal Power Commission show that in 1947 electric utility operating revenues increased over 12 per cent as against a growth of only about 2 per cent in net income, while in the first eight months of 1948 net income actually declined, despite a growth in revenue and plant investment over that of 1947. Illustrative of the trend which has been prevailing, the chief executive of a large middle western utility recently told a group of New York analysts that the incremental

\*For personal note, see "Pages with the Editors."

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## PUBLIC UTILITIES FORTNIGHTLY

earnings on new capital which have gone into his company in the last few years figure out at about  $1\frac{1}{2}$  per cent.

*utility*  
**I**F the reaction of the Pacific coast bank man were an isolated one, it could be dismissed. Unfortunately, however, his utterances reflect the feelings of a good many sophisticated buyers of securities. Perhaps not all of them go to the extreme of scratching utility stocks entirely from their eligible lists, but at least they make purchases in smaller amounts than would seem justified. For example, a composite portfolio of large universities and colleges published a few months ago showed 30 per cent of combined funds in common stocks but only 4 per cent in utility common stocks. In many respects, it would seem as if utility common stocks were made to order for funds of this type, but in some individual portfolios they were entirely absent and the figure for the composite seems low.

This line of thought, also, might be dismissed—at least from the standpoint of the utility companies, themselves—if they had no financing problems. Theoretically, it may be no concern of a utility company's management as to who owns its stock or at what level it sells in the market, but under today's conditions management cannot put its head in the sand, like the ostrich, and plead lack of interest or concern in the market for the company's shares. This is because there is a huge construction program to finance and a lot of money to be raised.

**I**T would appear that in the foreseeable future, at least, mortgage bonds can find a ready market. Institutions

—notably the life insurance companies and pension funds—have a continuing supply of funds to put to work, and public utility bonds are very desirable mediums for their investment. Debentures, also, seem to have a good market appeal. The preferred stock market is not in good shape but this type of security is being sold by companies with the better financial standings, especially if the shares carry a somewhat higher dividend rate than was offered a little while ago. Also, a sinking fund or purchase fund is becoming rather necessary to facilitate preferred stock sales by all but the prime credits.

However, these senior securities are salable at satisfactory rates only so long as proper capitalization ratios are maintained by the issuing companies. If the superstructure of debt and preferred stock is to be enlarged, the equity base must be increased also, if a company wishes to maintain its established standing. Last summer one eastern operating company sold an additional offering of bonds without having had any substantial new investment in equity over a considerable period and the aftermath was a drop in the quality rating assigned to that company's bonds by one of the leading statistical services. More recently another operating company added more mortgage debt to an already top-heavy structure and the bonds were retailed on a yield basis about three-quarters of one per cent higher than bonds of the same company had been sold for earlier in the year.

**U**N<sup>T</sup>IL very recently the SEC has shown no signs of relaxing its requirements as to certain minimum standards regarding financial struc-



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ture. Whether continued agitation in some quarters for more liberality during a period of heavy construction expenditures will have practical results is still an open question. On the contrary, public utterances of key people identified with the commission indicate insistence on keeping the ground gained in the last few years in the way of financial setups. While many companies do not come under SEC jurisdiction so far as regulation of capital structures is concerned, so much weight is now attached to the standards set by the commission that public opinion practically forces the respecting of its requirements by companies in general.

There is some danger in proceeding with senior financing in advance of what should be accompanying equity financing, but unfortunately some companies seem to be working along these lines. Some managements have chosen to utilize bank loans or other temporary forms of financing pending an "improvement in the market." Other companies have liquidated assets in one branch of their business in order to supply capital to another. A few have raised funds from present stockholders at discounts from an already subnormal market price. Obviously, such measures are expedients. The need is for a natural flow of new equity capital at prices commensurate with the costs of new facilities to be constructed.

SUCH prices, however, do not come about by accident—prices are the products of earnings. The attitude of existing stockholders with respect to current earnings levels was feelingly expressed during a recent SEC hearing by a question as to when better earnings might be expected. "If," this man said, "improved earnings cannot be realized during periods of prosperity like the present, when *will* they improve—in the next depression?"

Many companies are definitely facing the necessity for raising common stock money and perhaps too many of them are waiting on the side lines. It certainly would seem that the prudent board of directors would refuse to overload a company with debt, either short-term or long-term, and would give thought to common stock financing when the need for it becomes apparent.

If common stock is to be sold, then the next logical matter to consider is that of who will buy it. Stability of earnings and continuity of income have an appeal for a certain segment of the investing public—both private individuals and institutions. In recent years the ranks of utility common stock purchasers have been swelled by investors who traditionally bought bonds and preferred stocks but who were driven out of senior securities as they were refunded at successively lower rates by



**Q** "NET income can be increased in two ways—by increasing revenues or by cutting expenses and charges. Savings through refunding of senior securities were a fruitful source of earnings increases for several years, but that source has now dried up. The industry is alert to improve efficiency; ingenuity and aggressiveness have helped bring many expense items down."

## PUBLIC UTILITIES FORTNIGHTLY

the pressure to maintain income. This process is pretty well at an end and, in fact, there might be some reversal as preferred stocks are once more beginning to be offered with yields in some cases high enough to tempt the individual. There is certainly some reason to feel that the demand from people who insist on nothing but continuing, dependable income is being pretty well filled.

**I**F the amount of common stocks is to be sold that would seem to be necessary to provide the equity portion of the financing ahead, new investors must be attracted into the field or present buyers must be interested on a larger scale. This applies with particular force to institutions which have continuing supplies of funds to be put to work. With a fair degree of saturation of the market made up of investors content with stability of earnings, the utility companies must compete for the dollars of the investor, like our friend in the Pacific northwestern bank who will settle for nothing less than an upward trend in earnings. The day is not in the distant future—but is at hand now—when the utility companies must face this situation squarely and map a course of action.

Net income can be increased in two ways — by increasing revenues or by cutting expenses and charges. Savings through refunding of senior securities were a fruitful source of earnings increases for several years, but that source has now dried up. The industry is alert to improve efficiency; ingenuity and aggressiveness have helped bring many expense items down. Improved plant efficiency will help many companies make better showings. However,

many expenses which have shown continuing increases are beyond the control of management. Conspicuous among these items are fuel (except natural gas), wages, and taxes. As to such expenses management has been at the mercy of extraneous forces. The time comes when the juice is pretty well squeezed out of economies which can be realized in respect to controllable expenses. This writer visited a utility company a while ago whose chief production official complained that so much pressure had been put on the operating personnel to save money that the physical condition of the property was beginning to suffer. It certainly is to be hoped that this expression of opinion reflected the zealotry of a production man to keep plant in top-notch shape and, if his complaint was justified, that the situation is not typical. Such a condition, however, is the logical sequel to an economy program carried beyond reasonable limits.

**I**F there are indications that faith cannot be pinned on further savings in expenses and charges to stem a decline in earnings, then it would appear high time to pursue boldly the only other course open to increase earnings; namely, to improve revenues through higher rates. Since our qualifying statement at the opening of the article may have been forgotten, we repeat our observation that all companies do not fall in the same pattern. Some companies are still making satisfactory earnings progress and have no claim for rate increases. By and large, however, the industry needs relief.

We would like to make this article a double-barreled appeal in those instances where higher revenues, through





### Higher Electric Rates

**“W**HILE some electric companies have already moved to obtain higher rates, others have hesitated in the face of a situation which seemed to warrant action. This reluctance is in some degree understandable when we contemplate the years in a row in which changes in electric rates have been in only one direction—downward. This has been one of the big advertising points of the industry and it has capitalized upon it.”

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rate increases, seem the only solution to the problem of developing higher earnings. On one hand we appeal to company managements for aggressiveness in seeking higher rates; on the other hand we seek prompt and sympathetic action on the part of the regulatory bodies who must pass on the appeals. In this connection, our thoughts are running especially to the electric companies, as manufactured gas, transit, and telephone companies have already presented their plights in many instances.

*Continued.*  
**W**HILE some electric companies have already moved to obtain higher rates, others have hesitated in the face of a situation which seemed to warrant action. This reluctance is in some degree understandable when we contemplate the years in a row in which changes in electric rates have been in only one direction—downward. This has been one of the big advertis-

ing points of the industry and it has capitalized upon it. However, there is nothing sacrosanct about electric rates—no reason why they should stay down when everything else has soared in price. Bear in mind that the rate increases which we advocate usually will not need to be large. In most instances a fairly modest percentage increase will turn the trick. With most companies, such increases will only cancel out some of the more recent decreases and will still leave the general level of rates below what prevailed only a few years ago. A similar statement could be made about few, if any, of the other major items in the family budget. In short, we submit there is no need for an apologetic approach to the problem.

In some instances management may be a little inclined to give undue weight to a desire to keep customers happy. There is danger in such a case that the stockholder becomes the “forgotten man.” A situation of this sort is espe-

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cially likely to crop up with companies serving medium-sized and small communities where the company executives meet their customers on the street every day and sit together with them at the local Rotary Club, chamber of commerce, or other civic gathering. On the other hand, the company's stockholders may be scattered, literally, from Bangor to San Diego, and, as far as the company executives are concerned, most or all of them are only so many names on addressing machine plates.

Of course, it must be understood that this is more or less a short-range emergency situation, produced by the dislocation growing out of the war and postwar complications. Over the long range, the fundamental soundness of utility investment should make itself apparent if for no other reason than that the growth of utility service is a necessary corollary to the growth and prosperity of the nation as a whole.

**F**AIR-MINDED directors and executives who ponder upon the situation will recognize they have obligations to their stockholders as well as their customers. A few may proceed on the theory of applying the most grease to the wheel that squeaks the loudest, striving to keep happy the customers whose paths they are regularly crossing, rather than to worry about the generally inarticulate stockholder group. Let this latter group of utility men recognize that some morning they may awaken to find themselves in trouble with their customers because the investors are no longer willing to provide the funds for needed plant extensions and improvements.

Some companies are finding that

their requirements for higher revenues present a real opportunity for the overhauling of their rate structures. They can step up their returns and at the same time correct injustices and inequalities without necessarily seeking an across-the-board rate increase. This would seem to be an intelligent approach. Some rate schedules may be noncompensatory or, at best, not contributing a fair return. A study of the industrial rate schedules would seem to be one of the best places to start on this kind of a campaign. Many of these rates were established in bygone days on a basis which would be competitive with isolated power plants. In recent years the increase in fuel and labor, as well as other items, has wrought a complete change in the costs of operating an isolated plant, but this fact has not always been recognized in utility rate schedules. A careful analysis of rate structures may reveal that some types of business are being carried along on bases which are not sufficiently remunerative.

**A**LONG this line we have addressed ourselves more especially to the utility company managements, trying to point out why initiative should be taken to seek rate increases if such a program seems to offer the solution to the problem of higher earnings. However, there must be a sympathetic reception of rate-increase applications by the regulatory bodies if they are to become effective. Therefore, it is necessary that members of the various commissions should be alert to the financial problems facing the industry and understand that higher rates may in some instances be the only feasible solution to the problems.

## KEEPING THE UTILITY INVESTOR IN A HAPPY MOOD

Commissions generally are charged by law with the responsibility of allowing rates which will support earnings sufficient to attract capital to the industry. This was not a serious matter in the years in which the industry was not in the market for any substantial amount of new funds. During the 1930's there was a period when many companies were making fair progress in actually reducing their debt and, in some cases, retiring preferred stock. Construction requirements were not heavy as plant had been built ahead and the valleys in the output curve created in depression years were not quickly filled. What plant had to be constructed could be financed in large measure by depreciation funds and other internal cash.

*Refund costs*  
**R**EFUNDINGS of senior securities at lower rates were the order of the day for a long period and many companies carried through successive refundings as money rates continued to seek lower levels. When the trend of cost of capital was downward, it was only logical and fair that allowable rates of returns for the utility companies should be marked downward accordingly. There has been a reversal in the trend of money rates, however, and the cost of bond money has risen somewhat and the dividend rates on

preferred stocks are much higher. Certainly it is necessary to offer more for junior money than was necessary a while back and we press our contention that even higher returns may be necessary to induce investors to part with the number of dollars which will be needed for the construction program which seems to know no end. We submit, therefore, that just as the commissions lowered rates of allowable return a few years ago, they should now be as ready to raise them to give recognition to higher capital costs and especially the problem of raising equity money.

More liberality on the part of the commissions would not be prejudicial to the ratepayers; on the contrary it would represent an element of protection for them. Commissions have obligations to the consumers of tomorrow as well as to those of today. There is every indication that the present rapid growth in the use of electricity is not just a passing phase but that the trend may continue for several years. Recently published surveys point in this direction and, as this is written, news has been released that despite the heavy installations of new generating equipment in 1948, the proportion of reserve capacity is falling slightly below that of a year ago. Construction programs which the companies thought



**Q** "WHEN possibilities of increasing earnings by cutting expenses and charges are exhausted, then the only alternative is to raise rates. Management of companies facing a definite need of higher rates should be aggressive in seeking them, and commissions should recognize their responsibility to consumers and do their part to keep the industry in sound financial health."

## PUBLIC UTILITIES FORTNIGHTLY

would bring plants back into normal relationship with demand now appear in many instances only to be keeping pace with business growth. Thus it becomes necessary to project further large plant expansion. If at any point along the line funds are not forthcoming for construction, then there is a risk that consumer demands of tomorrow may not be met. Commissions will do well to bear this point in mind.

ONE last point we wish to touch upon is that the day may be near when some rethinking should be done on the question of using original cost for a rate base. There is a real problem in selling stocks if earnings do not keep reasonably in line with basic price levels and with earnings in nonregulated industries. This writer was not as perturbed as some observers about the original cost concept when it was first being pressed on a broad scale in the 1930's. The situation since World War II is quite different. Not only has the real value of the dollar been lowered drastically but there is no prospect of its restoration in the near future.

In such circumstances a cost basis of rate regulation is no longer realistic. We have no wish to argue over regulatory philosophies, but, if we are to be practical, it seems apparent that utilities are not going to attract capital in competition with other industries unless and until this problem is recognized frankly. Injustice is being done if the public utility investor is going to have

his return tied tightly to the prewar dollar so far as plant constructed in earlier years is concerned. Here again the question of competition for the investor's dollar is involved and there are too many fields in which price changes may be reflected in higher product costs for an investor to feel he must put his hard-earned savings in an industry which is so circumscribed by regulation that the inflation which is going on all around cannot be recognized.

SUMMARIZING, we would point out that the industry has a huge construction program ahead which will entail raising funds running well into the billions, and some of this must come from equity money. The circle of investors who are entirely contented with a fixed return from equity investments is limited; outside of that circle there is a demand for common stocks which promise growth in earnings and dividends. Utility stocks compete with other classes of equities which offer this growth, and the earnings of the industry should show a definite upward trend if necessary funds are to be raised. When possibilities of increasing earnings by cutting expenses and charges are exhausted, then the only alternative is to raise rates. Management of companies facing a definite need of higher rates should be aggressive in seeking them, and commissions should recognize their responsibility to consumers and do their part to keep the industry in sound financial health.

“EVEN a Scotsman cannot save and also pay existing taxes. Personal savings must come in the future from a wider section of the community, whose salary checks and pay packets are already eaten into by direct and indirect taxation to the point that thrift and saving are made impossible.”

—LORD CATTO,  
*Retiring Governor of the Bank of England.*



## Outlook for State Legislation Affecting Public Utilities

Wide range of subjects likely to be considered in 1949  
with regular sessions scheduled in forty-four states  
and special sessions likely in others.

By BETHUNE JONES\*

**N**UMEROUS issues affecting public utilities will be raised in state legislatures throughout the country during the current year, with regular sessions scheduled in forty-four states and special sessions likely in the others.

Regular sessions are getting under way this month in forty-three states, with an Alabama session to start in May. States without regular 1949 sessions, but where special sessions may be called, are Kentucky, Louisiana, Mississippi, and Virginia.

What utilities may expect from the 1949 sessions is less clear than during previous years of heavy biennial legislative activity. Not only are new and changed factors present with respect to legislative problems, but most of the lawmills will be composed to a larger extent than usual of new members.

The Democrats made sharp election gains in the state legislatures, as in Congress. They took legislative control completely away from the Republicans in some states and won stronger minorities in others, while holding all the states they formerly controlled. Neither party will have legislative control in several states, however. For example, the following states which had Republican governors and Republican-controlled legislatures will have these 1949 setups: Connecticut — Democratic governor and senate, but Republican house; Massachusetts — Democratic governor and house, but split senate; Indiana — Democratic governor and house, but Republican senate.

In addition to the changes in legislatures brought about by Democratic gains in the general election, there were unusually large turnovers in the primary elections in both parties in many states. What effect the many new faces

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## PUBLIC UTILITIES FORTNIGHTLY

in state legislatures may have on current-year action is difficult to judge, but in some types of legislation it may be an important factor. States in which legislative control was split by the election and those in which control is held by slim margins may run into legislative jams inviting political trading, and there also may be instances of opposing parties trying to outdo each other in appropriating state funds in order to win political favor of powerful groups.

Another uncertainty in attempting to forecast 1949 legislative activity in the states is the course which will be followed by Congress and Federal agencies. Revival of pressuring from Washington on public ownership of utilities, social security, labor legislation, and other issues, such as was common in the late Thirties, could have a significant bearing upon action in estate capitals as a result of the election, which not only gave many legislative seats to new solons but left all of them wondering just what the public wants.

**P**UBLIC ownership of utilities is certain to be raised as an issue in a number of states and may have strong support in some instances. In Vermont, for example, the Vermont Farm Bureau is urging creation of a state power authority, empowered to generate, buy, sell, and transmit electricity and issue bonds for such purposes. A proposed Massachusetts bill would permit public ownership of electric light companies on petition of 5 per cent of the voters and a referendum. Other measures designed to facilitate public ownership may be expected elsewhere. There are no present indications, however, of any widespread re-

versal of the generally negative attitude shown by state legislatures in recent years on public power proposals.

Various phases of utility rate regulation will be issues in some states, with the growing number of applications for higher telephone and other utility rates stimulating proposals for legislative action. Special state appropriations to enable regulatory agencies to hire rate experts and more counsel in rate cases have been enacted by a number of states in the last two years, with such measures likely to spread. There also will be growing pressure for increased levies against public utilities to pay the added costs of state regulatory agencies resulting from the mounting number of rate cases.

**V**ERMONT's legislature is expected to consider a bill to change utility rate regulatory procedure there by requiring a hearing on rate schedules before new rates become effective, instead of the present method of permitting rate increases under bond pending hearings. To what extent similar measures might be proposed in other states, if any, had not been indicated at this writing. There have been many indications, however, that the trend toward higher utility rates, despite its economic justification (as recognized by the actions of the majority of state regulatory agencies), will be accompanied by growing political obstructionism based upon the idea that it is politically popular to assume the pose of defending the public against "the utility interests."

Following his election as Massachusetts governor on the Democratic ticket, Paul A. Dever announced he would recommend an investigation of



## OUTLOOK FOR STATE LEGISLATION AFFECTING UTILITIES

electric power rates. He asserted that the election "was the emphatic voice of the little man that he no longer be 'pushed around' by the great interests not concerned with his welfare." More of this sort of talk may be heard in state capitals during the year, creating added public relations problems for utilities if nothing more damaging.

WHILE bills proposing changes in state public utility regulatory machinery may be expected in the 1949 crop of state legislation, there is little advance indication of what trends may emerge in this respect. Most important of legislation of this type given advance announcement are two bills dividing the functions of the present Illinois Commerce Commission which are expected to be introduced in the Illinois legislature as a result of a study started in 1940 by the Chicago Bar Association. Based on the theory that the power to make orders, rules, and regulations should not be exercised by the same persons who investigate and prosecute, the Illinois bills call for creation of a new state department of public utilities directly responsible to the governor, and another body to be called the Illinois Public Service Commission. The utilities department would act as an investigating body in rate cases.

Conservation of natural gas has been an increasing issue in recent years in

the principal natural gas-producing states, with this year to see a continuation of the trend. A revised draft of the Interstate Oil Compact Commission's comprehensive oil and gas conservation law was expected to be ready for use by 1949 legislatures. A varied flood of other bills on the subject also may be expected. Bills to facilitate the introduction of natural gas in areas where it is not yet available also may be proposed.

TRANSIT problems will be legislative issues in some states. A proposal to permit the establishment of public rapid transit agencies is slated for introduction in the California legislature. Other states in which transit issues will be raised include Massachusetts, where the legislature will be confronted with the problems of the Boston Metropolitan Transit Authority.

Controversy over taxation of co-operatives will be revived in the states as well as at Washington. Efforts to eliminate tax-exemption privileges enjoyed by co-operatives in competition with private business have made little progress in the states thus far, with no present indications that state legislatures will reverse their views in the immediate future.

Proposals to place rural electric co-operatives under state public utility



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regulation, as has already been done in a number of states, will reappear. Such indications as have been offered of legislative sentiment in the states on this subject in the last two years have tended toward the belief that rural electric co-ops should be placed under complete, or at least partial, state regulation because of their operation as public utilities.

The general trend in state taxes appears virtually certain to continue upward this year. In 1947, the last year of heavy state legislative activity, taxes were increased by more than half the states. New or increased taxes were enacted by four states in 1948, even though only a few legislatures convened.

**A**LTHOUGH revenues from present tax sources continue to pour into state treasuries at a high level, in many instances setting new records, expenditures also are soaring to new peaks. Complete data as to the current ratio between state government income and outgo are unavailable, but indications point to extension of the trend of fiscal 1947 when an increase of more than 25 per cent in expenditures by the states outdistanced a 17.8 per cent revenue rise.

The growing cost of state government is attributable to broadening of services as well as to inflationary pressures. Solons are increasingly confronted with mounting demands for higher appropriations for highways and other public works, more state aid for education, housing subsidies, bonuses and other aids for veterans, liberalized welfare programs, institutional construction, increased aid to political subdivisions, and other pur-

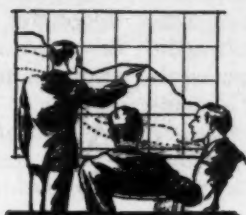
poses—all adding up to higher taxes.

This indicated continuing uptrend in state taxes will, of course, carry with it an added threat of new or higher special levies against utilities. During the light year of 1948 legislative activity, Virginia upped its gross receipts levy on public utilities, while severance taxes affecting natural gas production were boosted in Louisiana and Mississippi.

**B**ESIDES facing the prospect of a flood of proposed new and increased special utility taxes, public utilities also will have to share in the burden of such new and increased general state taxes as may be enacted. The revenue needs of many states are so great, unless present and proposed services are sharply curtailed, that new funds in excess of those obtainable from such sources as special levies against utilities must be sought. For that reason, the final 1949 legislative outcome in the states may leave utilities more burdened by new general taxes than special imposts.

New and increased general sales taxes and selected sales taxes on such products as gasoline, alcoholic beverages, soft drinks, and cigarettes will be widely proposed. The alternative to seeking new revenues from sales taxes will generally be new or increased levies against individual and corporate income. In some instances combinations of sales and income taxes may be proposed.

Motor vehicle fleet operations of public utilities face increased costs as a result of the highway financing issue, which will be raised in most states. Increased automotive taxes or bond issuance, or both, will be proposed in



### Increase in State Taxes

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more than half the states for expanded highway modernization programs. This will extend a trend of the last two years which saw gasoline taxes boosted by ten states, together with automotive tax raises and bond issuance for road purposes in other states.

**A**TREND toward higher taxes at the local as well as state level also is continuing, with the problem of easing the fiscal burdens of municipal governments to be an issue in most state legislative sessions. As population and real estate tax ratables continue to spread out from central city areas, municipal officials claim inability to rely on saturated property taxes to meet inflated operating costs and expanding pressure for broadened municipal services. They will flood state law mills with bills proposing increased state financial aid to political subdivisions or broadening of local taxing authority, or both.

At least a third of the states have taken some action in the last three years toward broadening local taxing powers. At the same time there also has been a steady increase in the amount of financial aid given political subdivisions by state governments. According to Census Bureau figures, state aid to local governments in 1947 totaled \$2,605,311,000, an increase of 24.5 per cent over the preceding year. Increased state aid to localities has the effect either of increasing state taxes or keeping them higher than otherwise would be necessary.

That public utilities will continue to be a major target in the drive for new local revenue, where local nonproperty taxing authority exists or is given, is plainly indicated by the record. Thirty-three cities over 10,000 population placed new taxes in effect during 1947 on local private utilities, with the tax either on the company's gross receipts or directly on the consumer's bill, ac-

## PUBLIC UTILITIES FORTNIGHTLY

cording to the International City Managers' Association. The trend extended further during 1948, although a complete tally is not yet available. In addition to such special taxes, municipalities are increasingly adopting local income, sales, and many other types of taxes affecting utilities as well as other businesses.

**M**EANWHILE, despite broadening efforts in that direction, the prospects are not bright for early major action toward the elimination of overlapping taxation among Federal, state, and local governments. There is increasing pressure for withdrawal by the Federal government from tax fields sought exclusively by state and local governments, and for accompanying curbing of the Federal grant-in-aid device. In contrast, however, the talk in Washington, without any effective opposition from the states, is for increased expenditures in many fields, calling for more rather than less Federal taxes, and of new and increased Federal-aid programs in such fields as social security, education, and others.

Bills proposing the imposition of new curbs on labor unions, such as were enacted by many states in 1947, will get a chilly reception in most states this year and some of the existing so-called antilabor measures may be repealed. Little enthusiasm for restrictive labor legislation was shown during the 1948 state legislative sessions, when no such bills were enacted. The November election results are being interpreted in the states as well as in Washington as showing further sentiment against extension of legislative curbs on unions.

Such legislation relating to labor

relations as may be enacted by the states this year probably will be designed, for the most part, to provide new and stronger conciliation and mediation machinery.

**A** DECISION on the constitutionality of state laws banning the closed shop and other forms of compulsory unionism was awaited at this writing from the U. S. Supreme Court. With Congress regarded as likely to repeal the anticlosed shop provision of the Taft-Hartley Act, the question of whether the states have the right to outlaw or regulate compulsory unionism assumes obviously increased significance. Some thirteen states now have laws prohibiting all forms of compulsory unionism, while six other states have statutes regulating the union shop and forbidding it under certain circumstances.

If the Supreme Court upholds the validity of state anticlosed shop laws, labor forces will make a concerted effort to prevent their further adoption and to bring about their repeal in states which already have them. In the recent general elections Arizona approved a measure effectuating a 1946 anticlosed shop state constitutional amendment, but such measures were defeated in Maine and New Mexico, and Massachusetts rejected proposals to outlaw the closed shop, require election of union officials by secret ballot, and require a secret vote of union members before a strike. The Massachusetts vote was particularly significant in view of the fact that the electorate of that state in 1946 overwhelmingly approved a labor-opposed measure requiring unions to file financial statements with the state.

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THE indicated new sentiment against restricted labor legislation will react against any proposals for additional state laws outlawing strikes in public utilities, such as were adopted in 1947 by a number of states, including Florida, Indiana, Massachusetts, Michigan, Missouri, Nebraska, New Jersey, Pennsylvania, Texas, Virginia, and Wisconsin. A new outbreak of utility strikes, however, would quickly change the outlook. Most of the present laws of this type provide for compulsory arbitration, although some rely mainly on stringent penalties to make strikes unprofitable. Some provide for state seizure and operation of utilities when a strike is threatened; others provide for seizure only after a strike has occurred.

Constitutionality of the general pattern of the state antiutility strike laws will remain clouded until a test case reaches the U. S. Supreme Court. New Jersey's law was upheld by a lower court judge, who held that a union had no inherent right to strike when it would cause great injury to the public. Michigan's antiutility strike law was invalidated by the state supreme court but on the minor grounds that it improperly required circuit court judges to sit as members of arbitration boards in disputes involving public

utilities. While the Michigan law's validity could be restored by the 1949 state legislature, the state's new Democratic governor, G. Mennen Williams, has proposed repeal of the entire 1947 Michigan labor regulatory act of which the antiutility strike provisions were a part. It has been proposed that Wisconsin's antiutility strike law, now being tested in the courts, be extended by the legislature to cover workers in municipal and state-owned utilities.

LOWER unemployment compensation tax contributions by employers and more liberal benefits to recipients will again be sought in many states in extension of a trend which saw such measures enacted by at least nineteen states in the last two years. There is, of course, a limit to how far this trend can go and in some states an increase in employer contributions already is reported not far distant, even with a continuing high level of employment. More stringent enforcement of unemployment compensation administration will be widely proposed.

State legislation in the unemployment compensation field may be affected by developments in Congress, where there will be proposals for extension of coverage to persons now excluded because they are employed by



**Q** "Motor vehicle fleet operations of public utilities face increased costs as a result of the highway financing issue, which will be raised in most states. Increased automotive taxes or bond issuance, or both, will be proposed in more than half the states for expanded highway modernization programs. This will extend a trend of the last two years which saw gasoline taxes boosted by ten states, together with automotive tax raises and bond issuance for road purposes in other states."



## PUBLIC UTILITIES FORTNIGHTLY

small firms and for liberalized benefits. The states have been moving on their own initiative toward broader coverage and more liberal benefits, with this trend likely to be speeded by the prospect of possible further Federal action.

Cash sickness benefit systems, designed to compensate workers for loss of wages while absent from employment because of nonoccupational sickness or disability, will be widely proposed but are unlikely to spread rapidly until more experience is built up by the three states which have already adopted them. New Jersey is now putting such a program into operation. Giving employers the option of self-insurance, commercial insurance, or state-operated insurance, the New Jersey program will be supported by payroll deductions, plus employer contributions. It is patterned after a California cash sickness law, which went into effect in 1946. A cash sickness law in effect in Rhode Island for nearly a decade differs from the other two state systems in that it has an exclusive state fund with no optional private coverage.

**C**OMPULSORY health insurance programs, providing prepaid medical care, supported either wholly or partially by employers, may be proposed in some states but appear unlikely to get far unless Federal legislation of this type calling for state participation is enacted. The trend in the states is more likely to be towards cash sickness benefit systems than outright compulsory health insurance.

Proposals for state wage-hour laws modeled after the Federal Fair Labor Standards Act will be pressed with greater vigor in state legislatures, many of which, like Congress, picked

up a greater number of "New Deal"-minded solons at the November election. While no state has yet enacted a replica of the Federal wage-hour law, support for such measures will be stronger in 1949 than at any time since the early days of the Federal act. Even without the new complexion given prospects for such legislation by the recent election, the states have been moving steadily deeper into regulation of wages and hours, with at least four states now directly or indirectly extending minimum wage order coverage to men as well as women and minors and with a trend in recent years toward upward revision of minimum wage levels under such orders.

Also likely to continue is the spreading trend of recent years toward liberalization of workmen's compensation laws through increased benefit rates, enactment of new occupational disease laws, and establishment of second injury funds. Such liberalizing legislation has been enacted by more than half the states in the last two years, while Mississippi's 1948 legislature enacted a workmen's compensation law for the first time. Mississippi for years had been the only state in the nation without such a statute.

**A**LONG with liberalization of workmen's compensation laws, state legislatures will give increasing attention to measures designed to promote greater industrial safety.

Fair employment practices acts, outlawing racial and religious discrimination in employment, will again be proposed in many legislatures. Progress claimed to have been achieved in the four states which have already adopted such laws will be cited by proponents.



## OUTLOOK FOR STATE LEGISLATION AFFECTING UTILITIES

Regulation of intrastate air transportation will be among the 1949 legislative issues. More than a dozen states in recent years have established or expanded aeronautics commissions for the regulation of intrastate aviation, with further similar action likely. There also will be a broadening of the trend toward granting new and increased state aid to localities in matching Federal-aid airport funds.

Proposals for further extension of the trend of recent years toward liberalization of motor vehicle size and weight restrictions will be widely pressed. Such measures have been enacted by at least twenty-two states in the last two years, but may find tougher sledding this year as a result of efforts of opponents to blame deteriorated highways in some states on heavy trucks.

Of interest to transit companies, bills designed to aid cities in attempting to provide adequate parking facilities and otherwise relieve urban traffic congestion will be proposed in many states.

Legislation which gives municipalities new or broadened powers to provide off-street parking facilities has been increasingly enacted in recent years.

PUBLIC utility firms engaged in merchandising appliances may be affected by general legislation relating to retail merchandising and pricing. Efforts probably will again be made to add Missouri, Texas, and Vermont to the forty-five states which now have fair trade laws, permitting manufacturers to establish minimum resale prices for their products. At the same time, opponents of fair trade legislation are reported planning to seek repeal of such measures in some of the states which now have them.

Unfair trade practices acts also may be raised as legislative issues in some states. Now effective in about eighteen states, these measures follow a pattern prohibiting the sale of product at a price lower than its invoice or replacement cost, plus the cost of doing business, which, in the absence of proof to the contrary, is usually deemed to be 6 per cent.

A trend toward the enactment of new and broader laws seeking to curb abuses in the field of instalment selling appears likely to spread during the year. Some nine states already have such laws, with some intended only to require full disclosure of all charges and terms while others regulate interest rates.

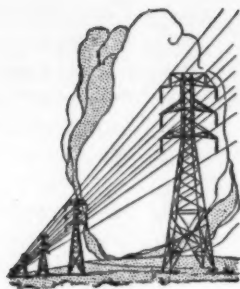
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**"T**HE [Federal] budget three years after the first World War was about \$4 billion per annum, whereas three years after the second World War it is \$40 billion.

*"There are insufficient savings left in the hands of the people to repair, maintain, and improve the tools of production and distribution upon which our standard of living depends.*

*"These figures obviously indicate the necessity for important structural changes in the government to secure the maximum efficiency and economy."*

—HERBERT HOOVER,  
Former President of the United States.



## Public Utilities In the White House

This month there will be another presidential inauguration at the White House, which is now being overhauled to give it, among other improvements, the most modern and complete public utility service available. But it wasn't always so, as this interesting review well demonstrates.

By ROSCOE AMES\*

**O**N January 20, 1949, Harry S. Truman will be inaugurated, in his own elected right, as the thirty-second President of the United States. But it will be 1950 before he can really move back into the White House for a reception and subsequently live in it with his family for the balance of his tenure.

President Truman will find the White House recently improved in every respect, including public utility services.

Yet it is an interesting and somewhat surprising commentary on a relatively short span of commonplace utility services, generally, that water was not piped into the White House

until 1833—only 116 years ago. Before that Chief Executives of our nation had to be content with outdoor pumps and such elementary indoor drinking and sanitation facilities as could be provided by slaves bringing water from a spring house located across the street (Pennsylvania avenue) in what is now known as Lafayette park.

But to go back to the beginning of this little review of public utility services and how they came to the White House—the original plan for the White House was the result of a prize of \$500. It was on March 14, 1792, that the commissioners of the "Territory of Columbia" offered such a prize for the "most approved plan, if adopt-

\*Professional writer, Washington, D. C.

## PUBLIC UTILITIES IN THE WHITE HOUSE

ed by them, for a President's house (*sic*) to be erected in this city." The prize was won by James Hoban, a brilliant young Irish architect, educated in Dublin, who had immigrated to Charleston, South Carolina, in 1785. The structure was commenced in that same year with slave labor and some imported carpenters and masons whose prevailing wage scale was \$1.25 a day.

THE first occupant of the barely completed structure was John Adams, inaugurated in 1797. Although heroic in design, it was so crude and unfinished in the interior as to cause the First Lady, Abigail Adams, to complain bitterly over the lack of firewood which nobody seemed to be interested in cutting or drawing from the surrounding wilderness which is now the populated national capital. She complained of the lamps "taxing" her efforts and those of the servants to keep the place lighted.

Thomas Moore, the Irish poet, who visited the city during the Jefferson administration, spoke of the White House of this period as follows: "The President's house, a very noble structure, is by no means suited to the philosophical humility of its present possessor, who inhabits but a corner of the mansion and abandons the rest to a state of uncleanly desolation."

The War of 1812 brought the British Red Coats with their torches to the city of Washington and they made plenty of light in the White House—burning it down in fact. But again Hoban was commissioned, following the peace treaty, to reconstruct the executive mansion. Mrs. Monroe, wife of the fifth President, saw to it that the new White House was brightly

illuminated. Her bill for \$100 for wax used in lighting a single presidential party was judged as a regal extravagance. Indeed, it might so be regarded today, in view of the fact that the electric illumination of the White House, at prevailing District of Columbia electric rates for the same number of rooms, would scarcely amount to more than \$1 and provide much more illumination.

John Quincy Adams aroused some criticism for swimming in the Potomac, which he preferred to taking occasional baths in the great wooden chamber tubs with water drawn from the Lafayette park spring and heated in great kettles in the White House fireplace.

This gave rise to an anecdote concerning Anne Royall, one of the earliest ladies of the press and so-called "mother of yellow journalism." She boasted of having interviewed every President from Washington to Lincoln included. But Adams almost spoiled her record by refusing, in his own dour way, to permit an interview.

According to the story, sharp-witted Anne watched until President Adams, accompanied by his son, John, had come down to the Potomac river (which then flowed within a few hundred feet of the south entrance of the White House). While he was immersed in cold water up to his chin, she came out from behind the bushes onto the bank of the Potomac and sat down on his clothes. She demanded that he answer her questions. Conservative biographers doubt this story, however, on grounds that John Quincy Adams was too stubborn to give in on anything he wished to do, even for reasons of convention.

## PUBLIC UTILITIES FORTNIGHTLY

**I**T was in 1833 that water was piped to the White House, not only for kitchens and pantries, but also for the hot and cold shower baths and *even water closets!* This shower bath contraption was something new which the Federal government desired to experiment with. But Congress still made the President supply his own fuel for heating. The old open fireplaces continued to heat bare walls inadequately, as in the days of the complaining Abigail Adams. The lighting decorations of the White House were improved with resplendent chandeliers during the Jackson administration and it was estimated that the East Room, alone, had 180 lamps.

Transportation to the White House also was improved during Jackson's administration with the macadamizing of Pennsylvania avenue and the establishment of the first horse-drawn bus system.

But it was during the administration of Martin Van Buren that comfortable, if not elegant, living came to stay at the executive mansion. The plumbing was overhauled, especially the kitchen drainage which had been giving trouble. A hot-air furnace was installed, although it in turn gave some trouble. The unprecedented sum of \$7,000 was reportedly spent for lamps and candlesticks. Van Buren also made some attempt to give himself and his family a little domestic privacy. In-

stead of permitting the White House to be operated on a public museum basis, visitors were welcomed only at stated hours. Even Congressmen who had previously tramped in and out of the place, virtually at will, were restricted to special visits, by appointment, and several state celebrations.

This irked some of the old-timers in Congress. It resulted in the so-called Ogle Report, which sarcastically referred to Van Buren as "Martin the First." The Ogle Report wrongfully railed against Van Buren as being the first President who was such an aristocrat that he had to have a private bath of his own. Yet the bathroom, as such, had been installed during the Monroe régime. Van Buren had merely improved it, along with other house repairs. The Ogle Report even criticized the food served at the White House. It demanded to know why the President could not be content with "good American fried meat and gravy or hog and hominy" served "with a mug of hard cider."

**W**HITE HOUSE communications with the outside world profited immediately with the opening of the first telegraph line between Baltimore and Washington in 1843 during the administration of John Tyler. The first telegraph terminal in Washington was in the old Baltimore & Ohio station near the Capitol, from which a corps of



**I**N 1865 Abraham Lincoln wrote to President Garrett of the B&O Railroad: "*It is said we shall soon all be in the dark here, unless YOU can bring coal to make gas. . . . I only write you to say, IT IS VERY IMPORTANT TO US; and not to say that you must STOP supplying the army to make room to carry coal. Do all you can for us in BOTH MATTERS.*"

## PUBLIC UTILITIES IN THE WHITE HOUSE

couriers handled incoming and outgoing dispatches to various Federal offices. By 1845, during the administration of James Polk, the White House and State Department had their own connections.

In 1845, during the occupancy of the eleventh President, James Knox Polk, the first real bathtub was installed in the White House. It was a huge coffin-like affair constructed of solid mahogany planking lined with zinc. If this innovation of barely more than a century ago sounds strange in our ears today, when bathing is accepted as a commonplace necessity of personal hygiene, it must be remembered that until fairly late in the Nineteenth Century there was considerable debate, even in medical centers, on the necessity or desirability of frequent bathing. As late as 1844 an ordinance in Philadelphia forbade bathing between November 1st and March 15th. An earlier Boston ordinance even prohibited bathing except on medical advice. So we cannot really look down our noses at our early Presidents when they were merely following the customs of their day. After all, when such a dandy as Frederick the Great boasted that he never took a bath in his life and scorned the use of knife and fork as of French effeminacy, our American statesmen of the early Nineteenth Century may be considered as living in the odor of respectability for their times.

Gas utility service came to the White House on December 29, 1848—just a century ago. The Washington Gas Light Company, which celebrated its centennial last year, had only received its charter of incorporation on July 8, 1848, a day after the President had dedicated the cornerstone for the

Washington Monument. It was not the first gas utility company in America. That honor goes to Baltimore where Rembrandt Peale, noted painter, and associates had incorporated a company in 1816—only four years later than King George III had chartered the first gas company in the world in London.

**T**HE Boston Gas Light Company was organized in 1822 and a New York Gas Light Company in 1824. New Orleans got gas in 1832, Philadelphia 1836, Cincinnati 1840, and St. Louis in 1845. As early as 1841 individual gas-making installations had been successfully demonstrated in Washington by the Jesuit Fathers at Georgetown College and Robert Grant in the Treasury building across the street from the White House. Furthermore, Congress also had authorized James Crutchet, a gas pioneer, to construct, in 1847, a gas plant and holder on the Capitol grounds to serve a huge light on an 80-foot wooden mast placed on the dome of the Capitol. This Capitol installation was never too successful—certainly not so successful as the regular public utility gas service furnished to the White House by the Washington Gas Light Company. This company now enjoys the distinction of being the first public utility chartered by Congress and still in operation. Its original charter was signed by President Polk with various amendments over the intervening years signed by Presidents Pierce, Lincoln, Grant, and Franklin D. Roosevelt.

But it was not until the administration of President Fillmore in 1850 that the White House was even equipped with a cooking stove. Prior to that,



### First Telephone at the White House

**“T**HE telephone first came to the White House in 1878—only two years after Alexander Graham Bell had discovered the principle of electromagnetic telephony and obtained a patent for its invention. Old records show that a pioneer telephone company solicitor called on the White House as early as Christmas Eve, December 24, 1877.”

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cooking had been accomplished by the great open fireplaces and stone bake ovens in the White House basement just as in the days of Abigail Adams. The colored cook who had been, for years, in charge of the complicated system of brackets, kettles, spits, grills, and trivets which went along with fire-place cooking, was insulted at the new-fangled cooking device. And, in truth, nobody in the White House, including the President, had the slightest idea as to how it worked. It was necessary to call on the Commissioner of Patents for information.

With the introduction of gas, illumination and cooking in the White House reached a certain degree of modernity. In Lincoln's administration it was even used to heat water which was piped into the White House from the Potomac river. This eliminated the old

Lafayette park source of water across the street. Yet wax candles and lamps persisted. Pendel, one of the White House aides during Lincoln's time, describes how long strips of wood were nailed across the *outside* of the White House windows to give additional illumination during parties. They were studded with smaller nails on which tallow candles were stuck, tier on tier. Another account of a White House party during Lincoln's administration recalls the dancers getting tallow on their clothing from some candles overhead.

**B**UT still the cavernous interior of the White House defied the central heating and fireplace facilities of those days. Contemporary news accounts of Grant's inaugural ball relate how the guests were so cold that they



## PUBLIC UTILITIES IN THE WHITE HOUSE

danced with their overcoats on, while forty canaries, placed in gilded cages about the rooms as decorations, froze to death. It was not until the occupancy of President Chester A. Arthur in 1881 that the White House got a really adequate boiler installed, sufficient to do a fair job of central heating.

Refrigeration facilities prior to the Lincoln administration had been confined to crude ice lockers. An amusing incident happened during the closing days of Andrew Jackson's administration when a great cheese weighing nearly a couple of tons had been sent to the President as a gift from his admirers. Not knowing what else to do with it, Old Hickory let it stay in the vestibule of the White House until its aroma began to be too noticeable for comfort. Then he ordered two men with long knives to cut it up into small one- to two-pound pieces, and gave it away to the inhabitants of Washington. In a few hours, the whole cheese had disappeared, leaving behind it a smell which lasted for sometime.

During the Hayes administration in 1877, the refrigeration facilities at the White House had improved to the point where Mrs. Hayes could serve 250 gallons of ice cream at a single reception—an item which was then regarded as a prodigious accomplishment of White House hospitality.

Electricity finally came to the White House during the administration of Benjamin Harrison who was inaugurated in 1889. This was almost a decade after Thomas Edison had opened the nation's first central electric station for public utility service at Pearl street in New York in 1882. Not only the White House, but also the near-by State, War, and Navy Depart-

ment buildings were wired for illumination. The wiring was of the primitive sort, practiced in that day, making use of gas fixtures and gas pipes as conduits for wiring in many of the rooms.

Neither President Harrison nor his successor, Grover Cleveland, were too sure about the electrical installations. It is recalled that President Cleveland insisted on all light sockets being turned off when not in use. When a White House aide once pointed out that such a precaution was not necessary for an *empty* socket (quite a common occurrence of those days of relatively scarce bulbs), Cleveland is said to have replied: "You had better turn it off anyhow; the electricity may *escape* in some way."

THE telephone first came to the White House in 1878—only two years after Alexander Graham Bell had discovered the principle of electromagnetic telephony and obtained a patent for its invention. Old records show that a pioneer telephone company solicitor called on the White House as early as Christmas Eve, December 24, 1877. The notation on this first visit was "not at home." The city of Washington was always close to the heart of the telephone inventor. It was in February, 1875, that Bell put off all pupils and classes and visited Washington, D. C., to call upon Professor Joseph Henry, the distinguished American scientist who was the secretary of the Smithsonian Institute. Bell, upon his return to Salem, Massachusetts, wrote to his parents that Henry had greatly encouraged his experiments and had urged him to persevere in them. Later on Bell established a home in Washington.

## PUBLIC UTILITIES FORTNIGHTLY

The first published telephone directory for Washington, D. C., bears the date of April 8, 1879, and was issued by the old National Telephone Exchange. This was the original telephone organization serving the city of Washington, and was established in 1878 on the initiative of the late George C. Maynard. The Maynard records are in the possession of the Chesapeake & Potomac Telephone Company, which succeeded the old National Telephone Exchange.

It is noteworthy that the list contained only 126 subscribers with numbers.

Telephone "No. 1" naturally went to the White House, listed alphabetically as "Executive Mansion." "No. 2" went to the Capitol, in the Senate corridor. But apparently the House of Representatives and the U. S. Supreme Court had to get along, at that time, without telephones of their own because "No. 3" was listed as a private subscriber—being none other than the Associated Press headquarters. Two other government subscribers appeared to be the Department of Agriculture ("No. 105") and the Treasury ("No. 4"). The ranking but conservative Department of State waited until a little later before installing the newfangled contraption. Several of the names appearing on this list are firms and individuals still living and active in Washington business and social life.

WHITE HOUSE attachés were at first skeptical or at least indifferent to the utility of the telephone, because of the extensive telegraph system of communication which had been established with the White House. Telegraph connections were there ever since the administration of James K. Polk (beginning in 1845), and they were greatly expanded during the Civil War days under pressure of military operations during the administration of President Lincoln.

One incident dramatized the telephone from the standpoint of White House history. That was the day of September 6, 1901. The President was attending the Pan American Exposition at Buffalo, New York. Things were pretty quiet in the executive mansion, as they usually were in the absence of the Chief. Suddenly a call came through on the single old-fashioned telephone sitting neglected in one corner of the White House offices. A presidential secretary answered it and turned around with the momentous news, "President McKinley has been assassinated." It was to be the forerunner of so many historic long-distance communications, via telephone, which were climaxed by the almost nightly transatlantic conversations which the late President Franklin D. Roosevelt used to have with Prime Minister Churchill of England during World War II.

The really great restoration of the



**Q** "MOVING pictures came to the White House with Woodrow Wilson, and heating with natural gas during the term of Herbert Hoover. President Franklin D. Roosevelt witnessed many of the extensive improvements in the utility facilities in the White House during his long tenure."

## PUBLIC UTILITIES IN THE WHITE HOUSE

White House came during the administration of President Theodore Roosevelt. It is described in a report of the architect to the 57th Congress, Senate Document No. 197, Government Printing Office, in 1903. (It was Teddy, incidentally, who first started to use the name "White House" officially.) Its author was Charles F. McKim who had the responsibility of carrying out many of the splendid improvements which characterize the structure today. But actually the same noble lines of the main building are the identical results of the original concept of the original architect, James Hoban, who supervised the building of the first White House and its restoration after the burning by the British in 1814. Hoban was honored by the American Institute of Architecture in 1929 in a somewhat belated recognition of his genius.

Moving pictures came to the White House with Woodrow Wilson, and heating with natural gas during the term of Herbert Hoover. President Franklin D. Roosevelt witnessed many of the extensive improvements in the utility facilities in the White House during his long tenure. These included the complete renovation of the kitchen in 1935. It was restored to its original position near the front (north) of the building after having been switched, during the Lincoln administration, because Mrs. Lincoln felt it was in the shadow of the great porte-cochere, over the north entrance, making it too dark for the kitchen help to work in the poorly lit basement rooms of that day.

**T**HE Franklin Roosevelt kitchens became a marvel of modern utility

elegance — almost befitting a great hotel, with all sorts of electrical appliances and refrigeration facilities. Modern electric elevators and dumb-waiters were installed. President Franklin D. Roosevelt, himself, invented a sort of combination portable hot and cold food-serving container device. This moved on small rubber-tired wheels, enabling the President to serve his luncheon guests with hot and cold foods simultaneously, while sitting in his office—an informality of which he was very fond.

The recent improvements in the White House, which were so extensive that President Truman has been compelled to live across the street in the Blair House, are more in the nature of interior structural renovation, to take care of weakened floors, ceilings, stairways, and so forth. The whole job is scheduled for completion sometime next year and probably in time for the sesquicentennial celebration of the founding of the city of Washington. When that occurs, the White House should present the finest and most modern living quarters, from the standpoint of splendid utility services, comparable to many wealthy mansions and doubtlessly superior to most of the castles of foreign rulers.

White House visitors of the future will see the marvels of clean natural gas heating, air conditioning in the summer time, up-to-the-minute electrical illumination and appliances of all kinds, with giant interior automatic telephone switchboards and other facilities, including, of course, radio, television, moving pictures, and even an interior swimming pool. It will be difficult for the visitor to realize that little more than a century ago even the

## PUBLIC UTILITIES FORTNIGHTLY

President had to do his bathing in the Potomac and warm his hands at an open fireplace while carrying on his nation's business through the awkward communication of couriers on horseback, bringing handwritten dispatches written under the light of oil lamps. It is something to remember the next

time somebody repeats that old saw about "a hundred years from now it won't make any difference." If the changes in the next hundred years are as extensive as those in the past, the White House in the year 2049 should really defy the imagination of any man or woman now alive.

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### Section of 1848 Gas Pipe Found in White House

"NEARLY one hundred years to the day after the newly installed gas system of the White House was turned on, workmen uncovered a section of one of the original pipes while dismantling the interior of the presidential mansion.

"That is just one of many oddities being found as workmen probe the walls and floors of the 150-year-old mansion, Lorenzo S. Winslow, White House architect, disclosed. . . .

"When the work of renovating and fireproofing the historic residence actually is started, the interior will be little more than a hollow shell.

"Mr. Winslow is saving the hand-carved mahogany doors, mantelpieces, window frames, plate glass, and other permanent fixtures associated with the White House since its earliest years. These fixtures, of course, will be restored to the 'new' mansion.

"A 4-foot length of one of the original lead gas pipes was uncovered when the plaster was removed from the wall of one of the second-floor rooms.

"The White House gas was turned on December 29, 1848, according to the records. That was near the end of President Polk's term. It remained for the family of the incoming President, Zachary Taylor, to enjoy to the fullest the convenience of that then-modern mode of lighting.

"Another 'find' consisted of sections of original handmade lead water pipes, believed installed in 1840. This pipe, Mr. Winslow said, brought water to the White House from a spring in the area of what is now Franklin square, Fourteenth and K streets, N. W. Other pipes led to a cistern east of the mansion.

"It will be possible to salvage much of the flooring in the building. Workmen wanted to find out the condition of the floors in the second-floor rooms. Under the maple wood surface, laid in 1902, they found the original flooring of hard pine. A great deal of the interior of the White House dates back only to the repairs done at the turn of the century."

—EXCERPT from *The* (Washington, D. C.)  
Evening Star.

# Washington and the Utilities



## *Profits Tax Losing Punch?*

As the 81st Congress opened its session amid widespread talk of reviving the excess profits tax on business, there was a noticeable drop in the pitch of enthusiasm for such a measure even among the prolabor group. The explanation seems to be that, prior to the actual opening of Congress, a good many freshmen Congressmen had been taking their advice directly from labor union camps. An excess profits tax finds much favor in these camps because it would put management in the position of making a choice between bowing to new wage demands or sending the money to Washington in the form of Federal tax collection. Union leaders figured that the unions would make out well under any such choice.

But when the freshmen got to Washington and rubbed elbows with old-line leaders in Congress, a different viewpoint began to make itself felt. Responsible leaders in Congress are now apprehensive over taking the responsibility for doing anything which may contribute to a possible recession. A recession bugaboo is haunting even the leftish congressional quarters—meaning those who never worried too much about such development provided it came under Republican congressional auspices.

Signs of flagging enthusiasm on excess profits tax were seen in two Democratic statements. Representative McCormack of Massachusetts, majority leader of the House, told a pre-New Year press conference that business "has nothing to fear from the Truman administration."

The Democratic party and the administration, Representative McCor-

mack said, would give the nation "sound and progressive" legislation. His comment was offered as Representative Monroney, Democrat of Oklahoma, a strong supporter of President Truman, expressed hope that the forthcoming Congress would not be asked to reimpose the excess profits tax.

**I**F the Treasury must have additional funds, said Representative Monroney, a high-ranking member of the House Banking Committee, he is prepared to offer legislation to increase the present corporation income tax.

Representative Monroney disclosed that he had discussed his ideas with Secretary of the Treasury John W. Snyder, but did not reveal Secretary Snyder's views on methods of increasing Federal taxes. Secretary Snyder is known to be opposed to the excess profits tax in peacetime and has been represented as urging President Truman to refrain from asking the next Congress to reenact the tax, despite the enthusiasm for it in New Deal quarters. Representative Monroney made the following comment:

I personally think there should be an increase in the normal corporation income tax rather than an excess profits tax and I have discussed an increased graduated corporation tax with Secretary Snyder.

Mr. Monroney apparently is one of the members of the House who are convinced that the Treasury will run into a deficit in the fiscal year, ending June 30th, unless government revenue is increased. His view, however, is not now shared by Representative Robert L. Doughton, Democrat of North Carolina, chairman of the House Ways and Means Committee.



### The Battle of Kilowatts

WITH the State Department openly admitting that it had orders to block Governor Dewey's plan for a state-Province independent power development on the St. Lawrence river, friends of the oft-rejected seaway proposal are taking new hope. They see in the 81st Congress the brightest chances of success for a joint seaway-power program than at any time in thirty years. At the same time it was generally conceded that failure of the Federal scheme in the 81st Congress would mean revival of Governor Dewey's proposal after the congressional session closed, and perhaps the death knell of an independent seaway scheme for some time.

The State Department turned thumbs down on the petition of New York state to go ahead with the power-generating feature of the improvement. It declared that the power and navigation elements in the seaway should be launched simultaneously and said that the project should be put before Congress again.

Seaway advocates welcomed this news because they feared that any separation of the two parts of the project would diminish the chances of the improvement as a navigation project. New York state, having got the benefit of the power in which it is chiefly interested, would, they believed, lose interest in the rest of it.

Governor Dewey, outraged by what some Albany commentators regarded as "obstructionist tactics" and "dog-in-the-manger" attitude, accused President Truman of playing politics, a compliment which Mr. Truman returned. Actually President Truman is carrying out a promise he made during the campaign when he said at Duluth that he would oppose the piecemeal development of the project. But there is no evidence that New York or other eastern seaboard port states are rushing to join with the interior states to resume efforts to get the agreement with Canada approved by Congress.

The need for Labrador ore has brought some new support for the seaway and has caused some of the major opponents of the past to change sides.

JAN. 20, 1949

### Reclamation Bureau Estimates

THE possibility that Reclamation Bureau might underestimate the cost of proposed projects in order to get preliminary approval of Congress has been raised by William Voigt, Jr., of the Izaak Walton League. Voigt gives the amounts by which various projects have been underestimated at the outset, as determined by the final cost or latest estimates as follows:

Grand Coulee, \$36,086,565; Yakima, \$39,848,248; Wickiup, \$416,353; Owyhee, \$1,049,297; Umatilla, \$4,240,292; Shasta dam, \$52,909,422; Friant dam, \$7,188,001; Orland, \$1,798,670; All-American canal, \$33,098,890; Klamath Tule Lake, \$2,042,125; Minidoka, \$25,227,385; Hoover dam, \$37,792,752; Parker dam, \$2,149,336; Central Valley project of California, \$238,297,580; Okanogan, \$952,129; and Black Canyon project in Idaho, \$144,768.

To this list, of course, can be added the Colorado-Big Thompson project, which was estimated originally at less than \$50,000,000 and now is likely to cost more than \$130,000,000 before it is finished.

In recent years construction costs have spurted from time to time more than engineers had any reason to believe they would. Prices of wages, machinery, and materials have gone way up.

The *Denver Post*, generally favorable to Reclamation projects, editorially commented on Voigt's figures as follows:

One reason project costs have risen is that the Reclamation Bureau has had a habit of planning a modest project to start with and then adding new reservoirs, canals, and power plants after work got under way.

Were those new features "afterthoughts" or did the bureau have them in mind all along and keep quiet about them until it had succeeded in getting congressional approval for the start of work?

That question seems to involve the integrity of the policy-making officials in the bureau. We in the West like to believe that our reclamation projects have so much merit behind them that no subterfuge, such as the misstating of cost estimates, should be necessary to gain congressional approval.

Perhaps it would be a healthy thing if Congress did a little looking into the estimating practices of the Reclamation Bureau.



## WASHINGTON AND THE UTILITIES

At the same time Congress might do some soul-searching to determine whether narrow, sectional opposition to reclamation projects in the past might have made the bureau canny about taking Congress into full confidence.

**R**ECLAMATION BUREAU, meanwhile, is preparing to take advantage of continued reports of power shortages in the West as justification of more and bigger projects. H. F. McPhail, director of power utilization, told a Washington reporter just before Christmas that in his opinion the recent National Security Resources Board survey of the nation's power supply did not reflect the seriousness of the situation in Arizona, central California, Wyoming, eastern Montana, and North and South Dakota.

Containing that the country has lagged greatly in starting the construction of hydroelectric projects to help meet growing western needs, McPhail said:

One of the most serious things is the rapid construction of fuel-burning plants. In California, these plants will burn oil to produce power, and oil is one of the first things that will be affected if we should get into a war. There is already a shortage of oil.

The Reclamation Bureau plans to add another 484,000 kilowatts of power capacity to its existing 2,552,000 by 1951, but McPhail said this new energy will be "soaked up by the time we are ready to operate."

### Gas Rates and Debt Ratios

**T**HE Federal Power Commission recently denied that its rate-fixing has forced natural gas companies to use high debt ratios to insure a "fair return" for common stockholders.

Actually, it declared, the debt ratio last year was slightly better than in 1939, before the commission began to regulate rates. The composite debt ratio for 15 companies was 49.68 per cent in 1939 and 48.41 in 1947, it said.

The FPC's denial was issued in direct answer to an accusation made last October by H. Carl Wolf, managing director of the American Gas Association. Mr. Wolf had declared that "the slavish ad-

herence" by regulatory bodies to low fixed rates of return had forced natural gas companies to seek "cheap money" rather than risk venture capital through junior equity financing, the commission noted.

**T**O refute this charge, FPC ordered its staff to survey the financial condition of natural gas companies under its jurisdiction. Twenty-three companies with an annual operating income of at least \$1,000,000 were covered.

Fifteen companies had debt ratios ranging from 349 to 52 per cent, and two had ratios of approximately 60. All but one of the 17, however, "were covering their interest requirements by more than five times," FPC said.

Of the remaining six, one company—a wholly owned subsidiary of another pipe-line company—had a debt amounting to 71.4 per cent of total capitalization, but held entirely by the parent company; two had debt ratios of 64.6 and 66.3 per cent, respectively; three ranged from 66.2 per cent to 69.1; and one had a ratio of 79.

Last year, it said, gross income was 4.9 times interest requirements on long-term debt, compared with 3.5 in 1939, "thus reflecting a notable improvement" in their financial condition. Between 1939 and 1947, debt was increased to 51 per cent.

Stock quotations of last December 2nd, FPC said, indicate that "the investor was willing to pay a premium" for natural gas common and "was satisfied with a return which is considerably less than the book earnings per share, which were more than 12 per cent." The weighted average earnings price ratio of common issued by nine companies was 9.9 per cent on that date.

It is "significant," the commission declared, that pipe-line stock has been "sold without any difficulty whatsoever" in recent years and "the tendency on the part . . . of a few natural gas companies to finance expansion . . . almost entirely through . . . debt securities must be ascribed to other reasons than the rate of return" fixed by FPC.



# Exchange Calls And Gossip

## Quick Review of 1948 Developments in Communications

TELEPHONE rate increases for the Bell system operating companies and some independent companies constituted the main feature in the communications picture for the year. Second in importance is the pressure of labor organizations on the telephone industry, bolstered by the election of President Truman and the support of the Communications Workers of America of his candidacy.

### Mr. Wilson's Report

Leroy A. Wilson, president of the American Telephone and Telegraph Company, made a year-end statement. Following is a fast review of the facts he presented, condensed and abbreviated:

The Bell system has spent over \$3 billion for new construction since VJ-Day and plans to keep right on at a high level in the months ahead.

The Bell operating companies during 1948 added more than 2,800,000 telephones to the nation's telephone network, bringing the total number of Bell telephones in service to over 31,300,000.

In rural areas, the Bell system gained about 325,000 telephones. The millionth instrument added since the war was installed in North Carolina in mid-December.

Despite these developments, there were still about 1,200,000 unfilled applications for telephone service on hand at the end of the year.

The volume of telephone calling reached a new high, about 167,300,000 a day.

New equipment used increased greatly.

NEARLY a billion and a half dollars was spent by the Bell system on new construction during the year—the greatest amount ever spent in a year in the system's history. To carry forward this program, about \$1 billion in new capital was raised, bringing the total obtained since VJ-Day to about \$2.7 billion. The number of stockholders of AT&T reached a record total of over 760,000.

Rising costs have forced the Bell companies to apply for telephone rate increases in every state in the Union except Nevada, and in the District of Columbia, since September, 1946.

Where higher rates have been authorized or made effective, this has brought about an average increase of about 14 per cent in intrastate revenues. If all applications now pending are granted in full, the total increase in revenues would average 22 per cent.

The Bell system extended its operator dialing of long-distance calls. By this method, operators can put through calls to distant telephones directly without the aid of other operators en route.

As construction of coaxial cable and radio relay facilities progressed, the Bell system brought network television to the Midwest, linking Buffalo, Cleveland, Detroit, Toledo, Milwaukee, Chicago, and St. Louis. Early in 1949, this network will be connected to the already established East coast television network via the Philadelphia-Cleveland coaxial cable recently opened for long-distance telephone service.

Telephone service will be further improved with the growing use of an automatic message accounting system, devel-

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## EXCHANGE CALLS AND GOSSIP

oped for dial service by the Bell Telephone Laboratories. The first installation was made in Media, Pennsylvania, in 1948. This system can keep track of who dials calls, what the called numbers are, how long the conversations last, and then add up and print detailed charge information. Initially, its use will be chiefly in places where telephone subscribers can dial short toll calls directly without the aid of an operator, thus substantially speeding up the service.

Another new Bell Telephone Laboratories development is an amazingly simple device called a transitor, a tiny metal cylinder capable of performing nearly all the functions of a vacuum tube, yet having no glass, vacuum, or filament. A technique of spacing radio frequencies closer together without mutual interference, thus permitting greater economy in the use of certain frequency bands, was also developed and applied to mobile radiotelephony.

Mobile telephone service by the end of 1948 was established in more than 130 American cities and towns, with the Bell companies serving more than 6,000 vehicles and other mobile units of all types on a common carrier basis.

Overseas telephone service continued to expand; more than 80 countries and territories of the world can now be reached by telephone from the United States.

### *Labor Situation*

THE Communications Workers of America (CWA, independent) maintained pressure for wage increases and obtained moderate advances in many Bell system companies and in some independents. Other less important unions met with similar results.

There was considerable talk in CWA conventions, national and local, regarding the advisability of affiliating with AFL or CIO. A referendum of all members on the question is expected in the near future.

Another feature of CWA activities in 1948 was the union's attempts to make its voice heard in telephone rate increase

cases. That movement has not progressed far, but the union plans continued action. No general policy has been revealed. One of the group's ideas is to oppose rate increases in instances where the company shows comfortable profits and has refused wage increases.

### *Pension Costs Explained*

OTTO C. RICHTER, chief statistician for the American Telephone and Telegraph Company, is one of the country's best known authorities on pension plans and their costs. He has been aiding the Bell operating companies by testifying before state regulatory bodies in connection with rate increase petitions.

Recently Mr. Richter appeared before the Rhode Island public utility administrator and revealed that the New England Telephone & Telegraph Company is spending more than 7 per cent of its total payroll for a \$45,000,000 pension fund for its employees. He said that these expenditures are a consideration when the company computes rates; but he explained that they are legitimate operating expenses since they promote morale and efficiency among employees.

Pension fund costs to the company have mounted yearly since 1940 because of (1) general increase in wage levels, (2) decreasing interest rates, and (3) an increase in pension levels in 1946.

### *Expensive Telephone Help*

IT's the original cost as well as the upkeep which makes telephone operations expensive. The annual cost of recruiting and training employees in the nation-wide telephone network of the Bell system is \$28,000,000.

In the first six months of 1948, the 21 companies in the system hired and trained 71,000 new operators—but gained only 7,300 permanent employees. At first glance these figures appear fantastic. One might guess that the other 63,700 got married or just quit before they became permanent telephone opera-

## PUBLIC UTILITIES FORTNIGHTLY

tors. But the marriage market is not that good. Also, a position at a Bell system telephone switchboard is considered as a desirable place to work. The real explanation of the heavy turnover is as follows:

The 71,000 new operators were engaged and trained primarily to replace those operators who were leaving to get married or for other reasons. Some were needed to meet expanded demand for telephone service. In the above case the final result of all hiring and terminations was a net gain of 7,300 operators.

### *Harness Report on FCC*

ONE congressional blast against the policies of the Federal Communications Commission (FCC) now is in the public record.

The special House committee (80th Congress), which investigated FCC, charges that agency with misuses of power and attempts to censor radio programs. The committee in its report made definite recommendations for new legislation to free radio broadcasting from domination by FCC.

The House group was headed by Representative Harness (Republican, Indiana).

Committee report asserted that new laws should be enacted to cover problems that did not exist when the present FCC law was written. Television is an example.

The report was caustic. It urged a continuing investigation of FCC. New legislation suggested was aimed at restrictions which "will leave no question of the intent of Congress that radio must remain as free as the press."

FCC's "Blue Book" was a target of the report. This book was published in March, 1946, and was held by the agency to be a set of informal standards of conduct. The Harness Committee said that FCC was using that publication "as the basis and excuse for regulation of radio program content." Also assaulted was the agency's authority to publish such a book.

IT was made adequately clear that the committee had little respect for FCC. The report said that the agency "offers an example of the danger of merging the legislative, executive, and judicial branches of our government." Usurpation of the judicial powers was castigated.

The committee decided that FCC "could do a much better internal administrative job if it dug in, straightened out its lines of authority, and saw to it that none of essential parts dominated the other parts." Derision was heaped upon the accounting department of FCC. The agency's law department didn't fare so well either. That department exercises power and influence "far above and beyond its ability and merits," the report asserted.

### *Hush-A-Phone Conflict*

THE Bell system has contended consistently for years that the telephone instrument was its property and hence should not be adorned with gadgets aimed either at enhanced beauty or other nonessential or nonutility functions.

The Hush-A-Phone Corporation of New York has appealed to the Federal Communications Commission for a ruling which will permit the use of hush-phones on the telephone instruments.

The company describes its product as an acoustical device attached to the transmitter of a telephone "so as to produce a selective silencing system by means of which words spoken into the transmitter are communicated in a highly intelligible state to a party listening at the receiving station, while to those listening at all other points, and especially in the immediate vicinity of the transmitter, the spoken words are rendered indistinct and effectively muffled."

Hush-A-Phone Corporation alleges that Bell system companies have requested retail stores to refrain from selling the device in accordance with company tariffs forbidding its use on telephone instruments.

# Financial News and Comment

By OWEN ELY



## Conflicting Views on the Outlook for Utility Stocks

UNDER the heading "Utilities: Record Sales Aren't Enough," *Business Week* for December 25th carried a rather pessimistic story on utility stocks. Despite record sales and revenues, with 2,000,000 new customers and increased customer use of power, mounting costs of operation and cheap rates have squeezed utility profit margins. Since election day utilities have proved more vulnerable pricewise than most other stock groups, according to *Business Week*. But this conclusion does not seem to jibe with the showing of the Dow-Jones averages:

	Industrials	Rails	Utilities
November 1 ..	189.76	61.97	35.74
January 3 ....	175.03	51.87	33.36
Decrease .....	7%	17%	7%

Reasons for the decline in stocks were stated to be (1) Washington's attitude towards private utilities; (2) the large amount of common stock overhanging the market; (3) the rapid rise in operating costs; and (4) absence of sufficient rate increases to offset higher costs. *Business Week's* headline implication is that earnings and dividends were lower for 1948, though later on it is mentioned that utility net may run about 2 per cent higher for 1948. The statement "here and there utilities have been shaving dividend payments" also seems to be off the beam. A number of large companies raised their dividend rates in 1948—

Commonwealth Edison, Boston Edison, Public Service Company of Colorado, Southwestern Public Service, Cleveland Electric Illuminating, Houston Lighting, and Public Service Electric & Gas (compared with the predecessor stock, Public Service of New Jersey). Cincinnati Gas & Electric and South Carolina E&G are expected to raise their dividend rates in the near future. These increases considerably more than offset any downward adjustments. While figures for the calendar year are not yet available for all companies, common dividend payments in the first nine months, as compiled by the FPC, were 6.3 per cent over the previous year.

**B**USINESS WEEK is right in its stress on rising costs of fuel and labor, but might have softened the picture by reporting that recent trends with respect to fuel costs and hydroelectric operations have shown some improvement. Certainly the wise remark, "You can do your own guessing on how long the squeeze on utility profit margins will last," sounds a little too bearish. However, *Business Week* does point out that state commissions are now more sympathetic to "cost tales of woe," that operating costs are being reduced by new generators, and that "when the postwar price inflation bubble bursts, costs all around could drop materially." It also points out that a business recession won't hurt the utilities much, if any. But it thinks utilities will have a hard job under present



## PUBLIC UTILITIES FORTNIGHTLY

conditions to sell enough common stocks to keep the financial structure balanced. The 1948 record of equity financing was not so good. The question of higher Federal taxes on utility earnings, which has worried Wall Street more than any other factor recently, is not mentioned by *Business Week*.

Two optimistic stories by leading Wall Street analysts have appeared recently, "Public Utility Stocks on Bargain Counter" by Harold H. Young, partner of Eastman, Dillon & Co. (in the *Commercial and Financial Chronicle* of December 30th); and "Utility Stocks Have Turned the Corner" by W. Truslow Hyde, Jr., Josephthal & Co. analyst and an erstwhile bear on utilities (in *The Analysts Journal* for December, 1948). Commenting on the decline in utility stocks, Mr. Young ascribes it to election results and to fears of higher taxation. But he points out that utilities have prospered under sixteen years of Democratic rule, and that they are more sheltered against higher taxes than other businesses.

He thinks there is little reason to expect new moves for municipal ownership, and regulating bodies are sympathetic to higher rates.

**T**RUSLOW HYDE in his story points out that the electric utilities have developed an almost foolproof system for reducing fluctuations in earnings. Industrial customers, whose business is apt to fluctuate widely, have been given rates made up of two factors—a demand charge and an energy charge. The former is more or less a fixed payment to assure the utility of enough revenue to meet overhead and fixed charges in connection with the facilities for this business. The energy charge is on a graduated scale, with a higher kilowatt-hour rate when business is poor and lower rates as the business increases. Moreover, industrial rates usually contain fuel clauses which protect the utility against higher costs of coal and oil. For commercial and residential customers, where business is not subject to wide fluctuation, the demand charge usually takes the form

of a minimum monthly payment; the same principle of graduated rates is followed, thus promoting use of additional appliances at low costs.

The utility industry is also unique with respect to unit operating costs. These tend to increase as full capacity is used, since less efficient units are then brought into operation. When business gets bad, unit costs are lower, which helps to offset the decline in revenues. Thus both rates and operating costs tend to iron out fluctuation in the business cycle so far as the utilities are concerned. The present high operating ratio should be considered as an indication of strength rather than of weakness.

The decline in the rate of return on invested capital in the utility industry is also of great significance in appraising the prospects for earnings in the next few years, according to Mr. Hyde. The big expansion program of the past two years means that capitalization has now "grown up" to earnings, and for the first time since the end of the war earnings are insufficient to provide a 6 per cent return on capitalization. As the industry continues with its program to increase net plant account by 40-50 per cent, capitalization should also grow up to around \$20 billion. Earnings may become increasingly inadequate to support this capitalization, even with the help of operating economies. Hence the utilities will be in a strong position to ask for rate increases, and such increases will have a leverage effect on common stock earnings. For example, Cleveland Electric Illuminating's recent request for an increase of 7½ per cent in revenues means an increase of \$1.10 a share in earnings or 39 per cent more.

**M**R. HYDE concludes that many companies may be able to show an increase of 10 per cent in share earnings next year, with further improvement in 1949-50. He thinks that speculators' aversion to utility stocks is now waning, and that with prices low in relation to earnings and book value "the strong position of the industry is attracting interest to utility stocks."

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## FINANCIAL NEWS AND COMMENT

### *Utility Relations with Wall Street*

Most utility executives spend considerable time and energy in maintaining sound public relations, knowing that this will stand them in good stead in connection with labor troubles, rate problems, etc. A great deal of effort and money are lavished on annual reports to give them stockholder "appeal." They are filled with glamorous pictures, attractive charts, and readable text—but frequently omit the more prosaic statistical data which appeal to the Wall Street

analyst and which are necessary for him to make a well-rounded appraisal. A few companies are following the new trend toward employing public relations "counselors."

But the industry is gradually beginning to realize that Wall Street relations are almost as important as public relations. For Wall Street has much to do with investor preferences for this or that utility issue. Stockholders' lists are being constantly reviewed by Wall Street banking houses and investment coun-



### UTILITY LUNCHEON FORUM TALKS BEFORE THE NYSSA IN 1947-8

<i>Date</i>	<i>Speaker</i>	<i>Topic</i>
Jan. 23, 1947	S. W. Andrews, Rate Engineer, American Gas & Electric	The Heat Pump's Load-building Possibilities
Jan. 31	Justin R. Whiting, Pres.	Consumers Power Company
Feb. 7	Jack Holtzclaw, Pres.	Virginia Electric & Power
Feb. 14	Elmer L. Lindseth, Pres.	Cleveland Electric Illuminating
Feb. 28	Roy S. Nelson, Pres.	Gulf States Utilities
Mar. 28	Allan G. Mitchell, Statistician	Philadelphia Electric
Apr. 18	Gilbert W. Chapman, Pres.	American Water Works
Apr. 24	G. M. Gadsby, Pres.	Utah Power & Light
May 9	A. F. Tegen, Pres.	General Public Utilities
May 22	J. B. Poston, Pres.	Columbus & So. Ohio Electric
June 12	A. W. Higgins, Pres.	Florida Power Company
June 27	Irwin L. Moore, Pres.	New England Electric System
June 30	Harold Quinton, Vice Pres.	Southern California Edison
Sept. 5	Walter C. Beckjord, Pres.	Cincinnati Gas & Elec.
Sept. 19	W. J. Herrman, Commonwealth & Southern	Financial Requirements of Public Utility Industry in Next Decade
Oct. 10	C. G. Strike, Pres.	Idaho Power
Oct. 16	S. G. Symonds, Pres.	Tennessee Gas & Transmission
Nov. 7	Harold V. Bozell, Pres.	General Telephone Corp.
Nov. 21	J. B. Black, Pres.	Pacific Gas & Electric
Dec. 3	Herbert L. Nichols, Chairman	Southwestern Public Service
Dec. 5	Chas. Delafield, Asst. to Pres.	Consolidated Edison
Jan. 8, 1948	Allen Van Wyck, Pres.	Illinois Power Co.
Jan. 22	Charles E. Oakes, Pres.	Pennsylvania Power & Light
Feb. 5	A. G. Neal, Pres.	Potomac Electric Power
Mar. 11	J. F. Merriam, Vice Pres.	Northern Natural Gas
May 7	Harold V. Bozell, Pres.	General Telephone Corp.
May 13	Irwin L. Moore, Pres.	New England Electric System
May 20	F. D. Campbell, Pres.	New England Gas & Electric
June 4	J. E. Harsh, Pres.	Empire District Electric
June 10	W. H. Sammis, Pres.	Ohio Edison
June 29	T. W. Delzell, Chairman	Portland General Electric
Sept. 8	Robert H. Hornby, Vice Pres.	Pacific Lighting
Sept. 10	Albert Cage, Pres.	California Electric Power
Sept. 24	Elmer L. Lindseth, Pres.	Cleveland Electric Illuminating
Oct. 21	E. M. Gadsby, Pres.	Utah Power & Light
Oct. 29	J. B. French, Pres.	Black Hills Power & Light
Nov. 4	H. L. Whitelaw, Managing Dir., Gas Appliance Mfrs. Assn.	Outlook for Gas Industry
Nov. 17	Henry B. Bryans, Pres.	Philadelphia Electric
Nov. 23	W. C. Beckjord, Pres.	Cincinnati Gas & Electric
Dec. 8	H. L. Nichols, Chairman	Southwestern Public Service
Dec. 9	G. C. Neff, Pres.	Wisconsin Power & Light

## PUBLIC UTILITIES FORTNIGHTLY

selors; also, most utility companies are now in the market for equity funds to help finance the \$6 billion program. Utility analysts are, more than ever, anxious to get the "low-down" on the trends of individual utilities.

Some of the larger utility companies now issue quarterly bulletins for distribution with their dividend checks. Others hold occasional regional meetings with stockholders and analysts, to keep them abreast of new developments. Some utility executives come to Wall Street and meet (by invitation) groups of partners and statisticians of Stock Exchange houses at special luncheons or cocktail parties. Southwestern Public Service, Columbia Gas, Union Electric, and others have used this method. The vice president of a leading New York bank has frequent round-table meetings with utility men, which have aroused considerable interest.

**T**HE New York Society of Security Analysts and similar organizations in Boston, Chicago, Philadelphia, and Los Angeles (now affiliated in The National Federation of Financial Analysts Societies) hold frequent luncheon forum meetings at which utility executives spend an hour reviewing their company's record and prospects, and answering questions. Many officials come well prepared with large charts and motion picture slides, and sometimes bring along an assistant or two to help in the presentation. Some of these talks are "off the record" but more frequently the forum is recognized as an excellent medium to get the company's story before the investing public. The president of Philadelphia Electric, in appearing before the society recently, had the complete address, replete with numerous charts, printed for distribution to society members. The accompanying table lists the utility speakers before the society over the past two years. (See page 109.)

Another medium for Wall Street education may also be mentioned—the "due diligence" or underwriters' meeting, held ostensibly to review the prospectus of a new issue. Some old-line companies still

fail to recognize the publicity value of these meetings and proceedings are conducted in a routine manner by junior officials who volunteer a minimum of information. Even when a senior official is in charge, he is not always well briefed to answer inquiries and is sometimes put "on the spot," giving erroneous or inadequate answers, or refusing information. On the other hand, some holding companies such as Commonwealth & Southern go to considerable lengths to aid their subsidiaries in making a strong case—even when first mortgage bonds are being offered and the immediate result is largely cut and dried. And occasionally a "due diligence" meeting may become a gala occasion, with samples of the company's products, souvenirs, movies, etc. Some of these meetings are long remembered as high lights of the utility analysts' trade.

### "Real Salesmanship" Will Move Preferred Stocks

**A**CCORDING to the records of the *Electrical World*, sales of utility securities to customers during the years 1924-31 averaged some \$200,000,000 a year. Retail sales of preferred stocks were also substantial in those days. In spite of the current difficulties in selling utility preferred stocks, however, there has been thus far no general effort to make retail sales, and too heavy reliance is still being placed on institutional buyers. There has, however, been one instance of old-fashioned retail selling effort which, while on a small scale, produced very encouraging results.

Associated Telephone Company, Ltd., California subsidiary of General Telephone Corporation, placed 150,000 shares of its \$1 preferred stock (par \$20) in December, 1942, 75,000 shares in April, 1948, and another 85,000 shares in August (including 10,000 shares offered to employees at a price concession). The first two blocks were retailed at 21 and the last at \$21.25. The banking group in each case included Paine, Webber, Jackson & Curtis, and Stone & Webster Se-

## FINANCIAL NEWS AND COMMENT

curities Corporation of New York, and Mitchum, Tully & Co. of San Francisco and Los Angeles.

The company was the first to use the new-type small prospectus, having devised it at the suggestion of George Jones, Los Angeles partner of Mitchum, Tully & Co. Its intention was to mail it out to customers with monthly bills, reviving the customer-ownership idea. However, it was decided instead to try out some old-fashioned sales plugging, to see what results could be obtained. A new Mitchum, Tully salesman, just out of college, was among those encouraged to take on the job. He used a classified telephone directory, made out cards for a large number of small businessmen in a given area, and visited each of these men. (Other salesmen later tried blind doorbell ringing, but this proved less successful.) In the initial sales campaign this new salesman sold 3,000 shares to 69 customers on a cash basis, and the interesting point is that *practically none of the purchasers had owned any stock before.*

This seems to indicate that there is a vast unexplored territory for enterprising salesmanship, open to the placing of securities of local utilities that are well known to prospective buyers. However, this method can be adopted only where there is close coöperation, on a negotiated basis, between the company and its bankers; it isn't suitable for the competitive method which requires a definite underwriting and a limited time schedule for the sale of the issue. The latter method seems suitable only for placing preferred stocks with institutional buyers who can be approached quickly over the phone without leisurely canvassing. The Associated Telephone sale was on an option basis without a definite commitment. The stock could be taken up in blocks of 10,000 shares and the investment banker was usually "short" of the issue. Thus there was never any tendency to get panicky over the necessity of unloading an inventory of unsold securities on dealers' shelves, and the resulting cut-rate sale to institutions. This was a very important feature

from the standpoint of the investment bankers. The low price was also an aid to retailing.

### *IBA Report on Utility Financing*

WE summarize as follows from the report of the Public Service Securities Committee of the Investment Bankers Association at the Hollywood (Florida) convention:

Total utility financing for 1948 will approach the \$3 billion mark, with most of the money going into new construction. Based on the record for the first eleven months, about 86 per cent of the total was debt financing, 7 per cent represented preferred stock sales, and there was about an equal amount of equity financing. Of the debt financing, less than \$50,000,000 was placed on a negotiated basis but the amount of private placements (principally with insurance companies) amounted to 12 per cent of total financing. Sixty-two issues (many small) were placed with institutions compared with 87 sold at competitive bidding, and 4 by negotiation.

In the placing of preferred stock offerings, \$67,000,000 went the competitive route, while \$93,000,000 were negotiated; \$4,000,000 were offered to stockholders and a \$1,000,000 issue was placed with an insurance company. In the sale of common stocks, the trend was toward negotiated deals and subscription rights. One hundred and twenty million dollars of equities were offered to stockholders (in most cases with an underwriting stand-by), while \$29,000,000 were negotiated and \$14,000,000 placed competitively.

The Bell system figures distort the above results somewhat, as only debt financing was done by Bell in 1948, and this amounted to 38 per cent of all the competitive debt financing. Excluding Bell, the ratios would be 81 per cent debt securities, 10 per cent preferred stock, and 9 per cent common. Debt financing does not, of course, include bank loans. The committee felt that many utility companies are now approaching the point

## PUBLIC UTILITIES FORTNIGHTLY

where they must do equity financing in order to avoid excessive debt ratios.

THE committee also gave some figures on "gross spreads" or total commissions and expenses. These averaged about \$4.68 per bond but were larger for the Bell system, which averaged \$5.19. In the preferred stock field the competitive deals were generally unsuccessful, so that the gross spread was very low after allowing for price reductions (only \$1.55 per share). On the 17 negotiated deals the spread was \$4.09, including several second-grade issues. The spread for common stocks averaged 6.87 per cent of the offering price for competitive deals and 7.63 per cent for negotiated issues; in two low-priced stocks the spread was 11-12 per cent. The report indicated that it is impossible to give any worth-while figures on subscription offerings because of the wide variation in terms, underwriting, etc.

The committee suggested that, in order to reduce the expenses of preparing registration statements, the SEC develop a simplified form for registration of additional bonds, where a previous issue under the same indenture has been sold within, say, three years. The committee felt that if such a simplified form could be made available additional issuances under existing mortgages would be more likely to come into the market.

Regarding sales made by holding companies to reduce their holdings, the committee referred to the large amount of Detroit Edison sold by American Light & Traction, but held that the practice is increasingly toward distribution of holdings to stockholders. The committee estimated that the integration program may now be about 80 per cent completed.

Regarding the need for additional equity financing, the committee pointed out that in the second half of the year offerings to stockholders had met with varying success, subscriptions ranging from 21½ per cent to 98 per cent. The offerings were generally successful where the stock was offered at a liberal discount and the dilution was moderate. The committee pointed out, however, that "most

people—particularly the small investors—do not buy securities but have securities sold to them by an investment dealer in whom they have confidence." Regarding the need for more financing without underwriting or commitment, the committee pointed to the great success of the Columbia Gas offering. Seven hundred dealers throughout the country placed the stock on a fee basis.

THE committee also held that the banking compensation for raising equity money must be on a more generous basis in future. "The basis of compensation to underwriters and participating dealers must exceed that of 1948 and recent years, if we as an industry are to maintain the machinery necessary to raise the hundreds of millions of equity dollars the utilities will need in 1949 and following years."

Regarding future government power projects, the committee felt that these will be likely to follow the lines of the Hoover, Grand Coulee, and Bonneville projects rather than the TVA, and stated:

It is the belief of your committee that the method of disposing of power generated at government projects (again excepting TVA) has proved so satisfactory to the government, the private utilities, and the public that this pattern is most likely to be followed in connection with the present governmental program which contemplates creation of an additional 4,400,000 kilowatts of power capacity between now and the end of 1954. Your committee, therefore, does not look upon this expectation of additional Federal power projects as necessarily a threat to the privately owned utilities, assuming recognition of and respect for the rights of the utility companies and investors in their securities.

Regarding the electric construction schedule, the committee estimated additional new generating capacity as follows:

1948 .....	4,750,000 KW
1949 .....	6,700,000 KW
1950 .....	5,800,000 KW
1951 .....	6,060,000 KW

Accordingly another year of heavy financing by the electric utilities is anticipated, plus perhaps a billion dollars for the Bell system.

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# FINANCIAL NEWS AND COMMENT

## CURRENT UTILITY STATISTICS AND RATIOS

		Amount		Per Cent Increase	
	Unit Used	Latest Month	Latest 12 Mos.	Latest Month	Latest 12 Mos.
<b>Operating Statistics (Nov.)</b>					
Output kilowatt hour—Total .....	Bill. KWH	24.2	280	11%	11%
Hydro generated .....	"	6.6	—	8	—
Fuel generated .....	"	17.6	—	8	—
Capacity .....	Mill. KW	55.7	—	8	—
Customers, no. ....	Mill.	40.4*	—	6	—
Fuel Use: Coal .....	Mill. tons	8.6	—	7	—
Gas .....	Mill. MCF	39.7	—	31	—
Oil .....	Mill. bbls.	3.6	—	7	—
Coal Stocks .....	Mill. tons	27.4	—	45	—
<b>Sales, Revenues, and Rates (Oct.)</b>					
KWH Sales—Residential .....	Bill. KWH	3.2	39	14	14
Commercial .....	"	2.8	33	11	13
Industrial .....	"	9.3	106	7	10
Total, incl. misc. ....	"	21.5	248	9	10
Revenues—Residential .....	Mill. \$	101	1,193	12	11
Commercial .....	"	81	931	12	13
Industrial .....	"	106	1,169	13	13
Total, incl. misc. sales .....	"	353	4,018	12	13
<b>Revenues and Income (Oct.)</b>					
Elec. Rev., incl. misc. rev. ....	Mill. \$	357	4,082	12	13
Misc. Income .....	"	4	113	D33	D12
<b>Expenditures (Oct.)</b>					
Fuel .....	"	72	752	21	35
Labor .....	"	68	794	11	12
Misc. Expenses .....	"	65	722	11	16
Depreciation .....	"	31	353	10	8
Taxes .....	"	57	686	10	6
Interest .....	"	18	206	15	9
Amortization, etc. ....	"	2	32	D47	D38
<b>Earnings and Dividends (Oct.)</b>					
Net Income .....	"	48	649	6	1
Preferred Div. (est.) .....	"	8	97	1	—
Bal. for Common Stock (est.) ....	"	40	552	5	1
Common Dividends (est.) .....	"	30	393	4	4
Balance to Surplus (est.) ....	"	10	159	25	5
<b>Utility Financing (Nov.)<sup>2</sup></b>					
Bonds .....	"	216	2,128	208	D24 <sup>4</sup>
Stocks .....	"	11	345	D77	D24 <sup>4</sup>
Total .....	"	227	2,473	94	D6 <sup>4</sup>
<b>Life Insur. Co. Investments (Dec.)<sup>3</sup></b>					
Utility Bonds .....	"	—	1,390	—	D10
Utility Stocks .....	"	—	34	—	D38
Total .....	"	—	1,424	—	D11
% of All Investments .....	"	—	21%	—	D14

\*At end of October. D—Decrease. <sup>2</sup>Data for all utilities (electric, gas, telephone, etc.), including refunding issues. <sup>3</sup>January 1 to December 25, 1948. <sup>4</sup>Eleven months ended November 30th.



# PUBLIC UTILITIES FORTNIGHTLY

## RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER COMPANIES

	12/29/48 Price About	Indicated Dividend Rate	Approx. Yield	12 Mos. Ended	Current Period	Share Earnings Previous Period	% In- crease	Price- Earnings Ratio
<b>Telephone Companies</b>								
<i>Bell System</i>								
S Amer. Tel. & Tel. ....	150	\$9.00	6.0%	Aug.	\$9.94	\$8.20	21	15.1
O Cinn. & Sub. Bell Tel. ....	74	4.50	6.1	Dec.	3.85	5.02	D23	19.2
C Mountain States T. & T. ....	102	6.00	5.9	Sept.	7.11	3.12	128	14.3
C New England Tel. ....	79	5.00	6.3	June	4.68	4.98	D6	16.9
S Pacific Tel. & Tel. ....	90	6.00	6.7	Aug.	6.20	3.07	103	14.5
O So. New England Tel. ....	116	6.00	5.2	Dec.	3.76	6.68	D44	30.9
Averages .....			6.0%					18.5
<i>Independents</i>								
C Associated Tel. A ....	23½	—	—	Dec.	D\$ .44	D\$ .56	—	—
S General Telephone ....	23	\$2.00	8.7%	Sept.	2.28	—	—	10.1
C Peninsular Tel. ....	45	2.50	5.6	June	5.70	—	—	7.9
O Rochester Telephone ....	8	—	—	Dec.	.47	1.01	D53	17.0
<b>Transit Companies</b>								
O Baltimore Transit ....	3	—	—	—	—	—	—	—
O Capital Transit ....	17	\$ .50	2.9%	Dec.	D .38	\$3.81	—	—
O Chic. S. S. & S. B. ....	7	.60	8.6	Dec.	1.38	1.61	D14	5.1
O Cinn. St. Ry. ....	5	—	—	Dec.	1.57	1.59	D1	3.2
O Dallas Ry. & Term. ....	11	1.40	12.7	Dec.	3.39	3.08	10	3.2
O Duluth Sup. Tran. ....	10	1.00	10.0	Dec.	2.75	4.03	D32	3.6
O Kansas City Pub. Ser. ....	1	—	—	—	—	—	—	—
O Los Angeles Transit ....	5	.50	10.0	Dec.	.87	.92	D5	5.8
S National City Lines ....	7	.75	10.7	Dec.	1.54	2.11	D27	4.5
O Phila. Transit ....	4	.30	7.5	Sept.	D .87	D .53	—	—
O Rochester Transit ....	4½	—	—	Dec.	D1.52	D1.37	—	—
O St. Louis Pub. Ser. A ....	4	.50	12.5	Dec.	.37	1.01	D63	10.8
O Syracuse Transit ....	23	3.00	13.0	Dec.	3.52	6.01	D42	6.5
S Twin Ave. Transit ....	7	—	—	—	—	—	—	—
S Twin City Rapid Tran. ....	4½	—	—	Dec.	.62	4.29	D86	7.3
O United Transit ....	4	—	—	Dec.	.21	1.76	D88	19.0
Averages .....			9.8%					6.9
<b>Water Companies</b>								
<i>Holding Companies</i>								
S Amer. Water Works ....	7	\$ .60	8.6%	Sept.	\$ .74	\$ .83	D11	9.5
O N. Y. Water Service ....	36	—	—	Sept.	2.89	3.69	D22	12.4
O Northeastern Water ....	12	—	—	Sept.	.34	.52	D35	35.3
Averages .....			2.9%					19.1
<i>Operating Companies</i>								
O Calif. Water Service. ....	26	\$2.00	7.7%	Nov.	\$2.58	\$2.43	D6	10.1
O Elizabethtown Water ....	115	6.00	5.2	Dec.	7.33	8.81	D17	15.7
S Hackensack Water ....	30	1.70	5.7	Dec.	3.08	2.87	7	9.7
O Indianapolis Water ....	17	.80	4.7	Dec.	1.19	1.98	D40	14.3
O Middlesex Water ....	60	3.00	5.0	Dec.	5.71	4.93	16	10.5
O New Haven Water ....	59	3.00	5.1	Dec.	3.34	4.01	D17	17.7
O Ohio Water Serv. ....	19	1.50	7.9	Sept.	2.31	1.98	17	8.2
O Phila. & Sub. Water ....	22	.80	3.6	Dec.	2.70	2.63	3	8.1
O Plainfield Union Water ...	69	4.00	5.8	Dec.	4.74	4.67	2	14.6
O San Jose Water ....	29	2.00	6.9	Oct.	3.03	2.79	9	9.6
O Scranton-Spring Brook ...	10	.70	7.0	Sept.	.87	.91	D4	11.5
O Stamford Water ....	53	2.00	3.8	Dec.	2.27	2.22	2	23.3
O West Va. Water Serv. ....	12	1.00	8.3	Sept.	1.37	1.38	—	8.8
Averages .....			5.9%					12.5

D—Deficit, E—Estimated, C—Curb Exchange, O—Over-counter or out-of-town exchange.  
S—New York Stock Exchange.

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# What Others Think

## New England's Power Problem



**T**HERE is an estimated need for an increase in New England's electric power generating capacity of about 1,100,000 kilowatts during the next ten years. That is the basic assumption behind a 68-page report entitled "Power in New England," published by the power survey committee of the New England Council. The fundamental conclusion of the report is that most of the new generating plants to be built in New England, outside of Maine, must use fuel as a source of power.

The New England Council, representing business and financial interests in Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut, appointed a power survey committee headed by E. H. Hunter, chairman, New Hampshire Public Service Commission, Concord. The director of the survey was William F. Uhl, president, Chas. T. Main, Inc., Boston. Active members of the survey committee, in addition to the chairman and director, numbered eighteen and included several research experts from universities and other institutions. Two important insurance companies were represented. Banking, utility, and manufacturing interests were represented by company executives.

A few of the high lights of the report selected from the foreword are as follows:

Since 1920, while the population of New England has increased about 20 per cent, the output of our electrical utilities has increased about 400 per cent. In the same period, however, the increase in generating capacity has been only slightly over 200 per cent. This became possible through improved load factor, multiple shift operation in industry, more efficient use of reserve capacities, and especially dependence upon our system of interconnected transmission (except as between Maine and the rest of New England) which had been built up over the years.

In Maine, where the export of hydroelectric power is prohibited by law, there is similar interconnection of generating plants within the state so that surplus capacity at any plant is made available wherever power is needed. It will be recalled that during the war, construction of power generating plants was at a virtual standstill, so that continued heavy postwar demands gave the utilities a particularly difficult problem during the period of drought in late 1947 when the margin of safety between capacity and load was perilously low. . . . The total potential capacity of undeveloped water power in New England deemed practical to develop under suitable load conditions is about 420,000 kilowatts, and of this amount the undeveloped Maine water powers (which cannot be regarded as available except in Maine) constitute 263,000 kilowatts. But even if all these undeveloped water powers were available and near enough to market, their complete development would supply only about one-third of the anticipated increase in New England demand over the next decade. Only in Maine can water power be considered as an important source of new power in the near future. The effective capacity of existing water powers in Maine in firm, year-round power, will be increased substantially by additional storage reservoirs under construction and projected.

Because water power was a prime factor in the original development of industrial communities in New England, it is natural that many of our people should magnify its importance in their view of the existing situation. . . . Hydroelectric power is cheap only in the most favorable locations, of which few remain undeveloped, and of all the industries of New England using electric power, perhaps the only one to which the cost of power might be a determinant factor in its location is the pulp-and-paper industry.

Public attention has been directed to the St. Lawrence seaway and power project as a possible source of power for New England. As this project now stands, the state of New York would have the first call on all the United States' share of the power generated. This study indicates that the growing power demand in upper New York state would probably absorb all the power from this source as fast as it could be developed.

New England should not rely upon

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the St. Lawrence as a potential source of power.

At certain of the flood-control projects planned in New England by the Corps of Engineers, United States Army, water-power plants may be included. At these so-called "dual purpose" projects, generating capacity to the amount of 80,000 kilowatts might be installed. In view of the total power needs of New England, the amount of power available, if and when developed at these sites, is not significant.

In Maine, the Passamaquoddy project is still being discussed. No doubt power can be generated from the tides there, if anyone can be found who will pay the cost. About twelve years ago the Federal Power Commission estimated the cost of construction of the smaller "American Project" at about \$1,090 per kilowatt. At that time hydroelectric power was costing around \$250 per kilowatt to build, and steam power about \$100 per kilowatt. Until such time as a complete engineering study establishing the economic soundness of the Quoddy project is made, no public funds should be appropriated for its construction. . . . Generally speaking, there appears to be an acceptance on the part of the industry of their responsibility in the public interest to create and maintain a power plant adequate for the needs of New England as a growing and prosperous region.

### Summary

**T**HE last two pages of the report are devoted to final conclusions. The high lights are given below in condensed form:

1. For the New England area, exclusive of Maine, a large addition of steam capacity will be required. There is not sufficient undeveloped hydro power in this area to take care of an appreciable portion of the expected increased load during the next ten years.

2. In Maine there is sufficient economically feasible undeveloped hydroelectric power to more than cover the expected increase in demand. However, steam plants may be needed in some sections.

3. There is little probability of a future shortage of power.

4. The importance of the cost of power in manufacturing has been greatly over-emphasized, but the importance of having a source available which provides reliable power when it is required cannot be over-emphasized.

5. New England is now very well interconnected by transmission lines in two systems, one covering the state of Maine, and one covering the remainder of New England. However, there is room for some additional lines.

6. The development of hydroelectric power on the St. Lawrence river would be of doubtful benefit to New England.

7. There are a few flood-control projects planned by the U. S. Army where power could be developed. The amount of available by-product power would not be significant as a major source.

8. River valley authorities similar to the Tennessee Valley Authority are not justified or even practicable without destroying values far in excess of possible values added by increased development.

9. Existing engineering information on the Passamaquoddy power project discloses no substantial ground for faith in its feasibility.

### Maps, Charts, and Tables

**O**NE of the features of the report is its prolific use of maps, and statistical charts and tables. There are four large-scale maps showing principal transmission lines, steam and Diesel power, developed water power, and undeveloped water power. The compilation is given further authority by the use of 24 charts and 26 statistical tables.

Copies of the report are available at \$1 each from the New England Council, Statler building, Boston 16, Massachusetts.

## Pretentious Reclamation Plan

**A**N elaborate \$4 billion plan of the Bureau of Reclamation has been revealed by Secretary of Interior J. A.

Krug and Reclamation Commissioner Michael W. Straus. The plan is explained in a special booklet, which is entitled

## WHAT OTHERS THINK

### "The Reclamation Program, 1948-54."

Mr. Krug distributed the booklet to delegates at the recent convention of the National Reclamation Association which was held November 17th-19th in Oklahoma City. In effect, the 24-page artistically prepared publication represents a bid for additional appropriations from Congress totaling \$3,891,900,000 for the seven years—an average of over \$500,000,000 a year—and ranging from \$204,200,000 the first year to as much as \$781,900,000 for 1953, and closing with \$720,200,000 in 1954.

In announcing the long-range program, Krug remarked, "Proposed construction under the 1948-1954 Reclamation program could more than double the area supplied with water from Reclamation facilities by the end of the fiscal year 1954 and could almost treble hydroelectric power production. I am gratified with the report which Commissioner of Reclamation Michael W. Straus has prepared at the request of Congressman Richard J. Welch, chairman of the Committee on Public Lands."

The Bureau of Reclamation took the responsibility of issuing the press release for Mr. Krug's announcement. Three paragraphs quoted from that release show that Interior and Reclamation, in their symphonies to the public, use many instruments and pound kettle drums of varied tones. Here is one theme dealing with oil:

Increased need for hydroelectric power has been demonstrated repeatedly during the past years by recurrent shortages in West coast cities. Power is needed for pumping irrigation water, industrial and domestic use, and to help conserve fuel oil supplies. Water-power plants can be used instead of fuel-burning plants that consume nonreplaceable natural resources of coal and oil.

Power plants on Bureau of Reclamation projects today produce electrical energy that would consume at least 25,000,000 barrels of oil each year if modern fuel-burning plants were required to supply this same energy.

By 1954, estimated demands for electrical energy from bureau power systems will have reached a point where to supply this energy from fuel-burning plants would tap oil reserves to the extent of 60,000,000 to 70,000,000 barrels of oil annually. This quantity of fuel can be conserved largely by harnessing water resources.

THE remainder of the release, which contains one full page of single-spaced typewritten material, explains other benefits of the plan, including "a huge increase in crop and livestock production, increased industrial advancement, flood control, municipal water supplies, and recreational facilities."

The physical make-up of the booklet itself would be of interest to utility executives, advertising firms and departments, public relations groups, and any institutions valuing high-class propaganda. It may be obtained from the U. S. Government Printing Office, Washington, D. C. The publication bears the designation: 1948-0-804810.

## Speaking an Annual Report

SPEAKING an annual report is not in itself a new idea. Practically all corporation presidents summarize verbally the operations of their company at least once a year at stockholders' meetings. However, Crawford H. Greenewalt, president, E. I. du Pont de Nemours & Company, deserves some special recognition for the manner in which he addresses large groups of his company's employees on this subject. Perhaps some degree of imitation would be the best compliment.

Early in October, Mr. Greenewalt gave an address before the Du Pont Veterans' Association, at Deepwater Point, New Jersey. Its outstanding characteristic was the method he used in explaining in simple, interesting, and clear language both the financial results of a year's operation and the philosophy of the du Pont management.

In his statistical approach, Mr. Greenewalt simplified the situation immediately by putting the figures on a "per employee" basis and calling the company

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"YES SIR, OTIS—SHE CARRIES HER WEIGHT PRETTY WELL"

"du Pont Average, Inc." The company has 75,000 employees. His starting point is based on the simplified operating statement of the 1947 annual report, as follows:

Let us look first at the du Pont investment, by which I mean the total capital the company requires to do its business. This includes our stocks of raw materials in the plants, cash on hand, our manufacturing facilities, the finished products in our warehouses, our laboratories, cafeterias, and office buildings, together with the amounts owed us by our customers. Dividing this total investment by 75,000, we find that the investment back of the average du Pont employee is \$13,500.

FROM that point on the major items of the earnings statement are discussed in detail with the same type of under-

standable explanation. The main classifications are, of course, gross earnings, raw materials and services, wages, taxes, and depreciation. Then the results are summarized, thus:

Let us total all of these items and see what our year's operation finally looks like. We see that we have spent a total of \$9,500 in order to operate our business. That means that we have earned a profit, which is the difference between our total sales of \$10,600 and our expense of \$9,500, or \$1,100.

Now \$1,100 represents just slightly over 8 per cent on our capital investment of \$13,500. It is a good return considering the difficulties of the times, and we can be proud of it. That profit is the reward we promised the people who put up their capital and might be called a rental for the use of their money. If there were no prospects of such a reward, these people would have been just as reluctant to advance their money as you or I

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would be to accept a mortgage that was going to pay us no interest.

From these quotations, it can be readily observed that Mr. Greenwalt not only explains the data clearly but he also weaves in the philosophy and method of operation of American business. They are so well stated that one more may not be amiss—reserves:

So we say to our investors, we have made for you this year, over and above our costs of doing business, a total profit of \$1,100. We do not, however, wish to leave the cash box entirely empty as we start another year. We may need additional funds to build an addition to our plant, to buy a new piece of

machinery, or to tide us over if our customers are slower in paying their bills, so we ask our backers if they will allow us to retain in the business part of this profit their money has earned. In 1947, du Pont Average, Inc., retained \$280 for these purposes and paid out in the form of dividends a total of \$820.

That was just over 6 per cent cash return on the money invested, and the additional \$280 was added to the investment retained in the business, giving us \$13,780 with which to start the new year.

On the purely philosophical side, Mr. Greenwalt took up such subjects as "big business" with the same simplicity and clearness.

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## Our System

FRED I. KENT, director of the Bankers Trust Company, New York, is well known for his ability to evaluate and describe the economic problems of the day. In a recent address before an American Bankers Association meeting in Detroit, Mr. Kent made some very pertinent observations on the current American scene.

Ideas expressed all were based on the necessity of maintaining a system of free enterprise in this country and of supporting it in other countries. Free enterprise is defined by Mr. Kent as a system under which every man is free to carry on as he may wish in his home, in his community, anywhere in this country—without interference by his government except as he may trample upon the rights of others. Also, every man may own property and can depend upon his government to protect him in his right to do so.

Mr. Kent's recommendations with respect to giving and lending money to foreign countries are of interest. The essence of his proposals is evident in the following quotation:

From the standpoint of ideologies, Socialism leads to Communism and Communism to totalitarianism. This says to our people in no uncertain terms that in trying to put the peoples of Europe into position to remake their own lives, we must recognize the fact that we have a perfect right, without infringing on the rights of others, to give what we can, particularly as it requires great

sacrifices on the part of our people, only in such ways as can lead to the freedom of the peoples whom we are trying to help.

Naturally the communist line, if we so operate, will be to endeavor to further unrest by claiming that we are trying to force our own way of government upon the peoples of Europe. Our best answer to such a line is to go our own way unperturbed and control the things which we give in such a manner that as they are accepted, greater freedom is evidenced for the peoples concerned.

What will it avail the people of Great Britain if we help to rivet the fetters of Socialism upon them, and lengthen the time that they must suffer under such conditions before they can save themselves and reach toward a standard of living that is not possible under great bureaucracies, but that is easily attainable under free enterprise? By assuring ourselves that the aid we extend Great Britain will not be wasted, we will not be curtailing the freedom of the British people in any way, nor will we be demanding that they govern themselves in our way. Instead, as givers, we will control our gifts only to the extent necessary to make them in our opinion—most effective for the British people. As givers our opinion should prevail.

On the other hand, if we delay the breakdown of a government which wishes to nationalize its people and thereby destroy them, we will be wasting our substance, we will be sacrificing the American people needlessly; and we will be prolonging the hardship of the British people.

### Taxation

A SYSTEM of taxation must prevail that leaves to those with medium and higher incomes, including profits, the ma-



## PUBLIC UTILITIES FORTNIGHTLY

for portion of their returns. Expanding on this idea, Mr. Kent said:

Until those to the left obtained sufficient power to require that government, through taxation, confiscate in large part the earnings and profits of those receiving medium and large incomes annually, venture capital in the United States was never jeopardized. At present, however, private enterprise cannot function normally and freely as it should be able to do in the interest of all the people, particularly those with smaller incomes who must depend for their jobs and most of their

conveniences of living upon the use of investment and venture capital that represents excess income over sums required for living purposes—capital that is not available under our present system of taxation.

Mr. Kent emphasized the point that excessive and wasteful government expenditure is not only at the bottom of our present inflationary period, but that it also is the reason for the destructive taxation which exists in this country today.

## Educational Program of Institute Of Gas Technology

ONE of the aims of the Institute of Gas Technology is to provide the gas industry with young men specially trained in its technology. The institute annually awards a number of fellowships to selected college graduates to pursue a 2-year course leading to the master's degree in gas technology or a 4-year course leading to the degree of doctor of philosophy.

The Institute of Gas Technology, 3300 Federal street, Chicago 16, is a nonprofit group established and supported by the gas industry to promote its progress through research, education, and information service. It is affiliated with the Illinois Institute of Technology.

The educational program is one of the most important functions in the over-all plan which led to the institute's establishment in 1941. At present five new men and six second-year men are pursuing graduate studies in the fall term at the institute.

Also, there are six men completing their requirements for the degree of master of gas technology this year. They are expected to join the gas industry this June.

In the latter part of 1948, the institute started a monthly news letter. It is a 4-page printed publication devoted primarily to news of the institute's activities and the interests of its sponsors.

## What Are Earnings?

THERE seems to be no general agreement as to what constitutes earnings or profits. The confusion is increased when attempts are made to determine whether profits are too high or too low at any particular time. Arguments on these questions are not confined to the man on the street. Within the past few weeks Harvard professors have been taking opposite sides on the question as to whether or not present corporate profits were excessive. Even expert accountants take opposing views. It therefore is not surprising that the public doesn't know; possibly never will.

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One of the reasons for confusion on the part of the public is the often repeated, but true, business expression that the retailer "marks up" the wholesale price by 25 per cent or more. This is often thought of as profit because forgotten are the many expenses in addition to the actual cost of the goods to the retailer.

The Bell Telephone Company of Pennsylvania and the Diamond State Telephone Company in their employee magazine, *The Telephone News*, for November, 1948, explain the companies' earnings on two pages containing simple text and two readable charts. One chart is en-



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titled "Customers Think We Earn," and it shows confusion of the widest variety, based on an actual survey. For example, 7 per cent of the people thought the companies made 30 per cent or more; and nearly half of the customers had no opinion at all.

The other chart reveals the actual return on plant investment, by quarters on an annual basis since the fourth quarter of 1947. There has been a continuing decline in the return since the last quarter of 1947, when it stood at 4.35 per cent. By the third quarter of 1948, the re-

turn had dropped to 3.37 per cent.

THE text explains that the companies need two kinds of dollars—"the dollars our customers pay us for services to run the business, and the dollars we get from investors to carry out our program to meet the public's demands for telephone service." To meet those demands, the companies must raise well over a hundred million dollars within the next few years.

Present earnings may make it difficult to attract such money from investors.

## Notes on Recent Publications

*Pacific Northwest.* The *Harvard Business Review*, in its May, 1948, issue, has published a 23-page article entitled "Appraisal of the Pacific Northwest." The writer is Maurice W. Lee, dean, School of Economics and Business, the State College of Washington, Pullman.

The major portion of the analysis is devoted to the problem as to whether or not that region can improve the "balance" of its economy by carrying forward the manufacturing developments which were stimulated by the war. In general, the answer is Yes. Scope of the article is indicated by the subjects treated—economic background, population, products and income, industrial development, power resources, atomic energy, new electro processes, agriculture, extractive industries, and foreign trade. The writer concluded that the region will continue to be attractive to migrants from other sections of the country as well as to outside capital. *Harvard Business Review*, May, 1948. Published bimonthly. Editorial and business offices Galatin House, Soldiers Field, Boston 63, Massachusetts. Price, \$1.50 per copy.

*The American Economy.* The future of American economic institutions has been forecast favorably in a new book by Sumner H. Slichter. He believes in the American system of private enterprise, but he analyzes the structure with a critical eye. The system's problems, prospects, strength, and weaknesses are dealt with in detail. Four major problems discussed are: (1) industrial relations, (2) economic stability, (3) international economic policy, and (4) incentives necessary to increase industrial capacity and production. Professor Slichter finds our economy undergoing a basic transformation, as power shifts from manage-

ment to labor. However, he believes that this new "laboristic" society can preserve the best features of Capitalism. Graduated from the University of Wisconsin, Mr. Slichter continued his academic work at Chicago, Princeton, Cornell, and Harvard. Since 1942, he has been chairman of the research advisory board of the Committee for Economic Development. *The American Economy*. Price, \$2.75. Alfred A. Knopf, New York, New York.

*Personnel Problems.* Personnel officers in utility companies who are not familiar with the *Personnel Journal* may find articles of value to them in that publication. For example, in the July-August, 1948, issue, the eye of this reviewer checks three articles as he scans the table of contents. The first, called "Communication and Training—The Tools of Supervisory Development," was written by William J. Eisenberg and Charles G. Donerly. This article describes in detail a continuous program of supervisory development conferences, which provide a 2-way system of communication while concurrently instructing supervisors in the techniques of discharging their duties effectively. A second article, "The Field Review Method of Employee Evaluation and Internal Placement," was written by Guy W. Wadsworth, Jr., of the Southern Counties Gas Company of California. This is an exposition of a method which enables the personnel department help the operating supervisors to do a better job of placing, developing, and reporting on their workers. Third, Martha E. Schaaf, Eli Lilly & Company, Indianapolis, has presented an informative short discussion of "The Company Library." *Personnel Journal*. Published 11 times a year; July and August issues combined. Swarthmore, Pennsylvania. Annual subscription price \$5.



# The March of Events

## In General

### FPC Issues Revision of Maps

THE Federal Power Commission on December 30th issued a 1948 revision of its map series, "Principal Electric Utility Generating Stations and Transmission Lines in the United States." Comprising eleven regional maps and six supplementary sheets, the series shows, in general, transmission lines of 22 kilovolts and above, electric utility generating stations of 1,000 kilowatts and above, and industrial electric generating stations of 1,000 kilowatts and above when interconnected with an electric utility.

The maps are revised as of June 30, 1948, and are sold exclusively by the Federal Power Commission. The complete set of eleven with supplementary sheets is \$2.50 and individual maps are 25 cents each.

The eleven regions shown in the series are the New England, Middle Atlantic, Southeastern, East Central, Upper Great Lakes, Ozark and Panhandle, Western Gulf, Southwest Mountain, Northwest

Central, Pacific Northwest, and Pacific Southwest.

### Steam Plant Condemned

THE National Association of Electric Companies early this month condemned the electric plant proposed by the Tennessee Valley Authority at New Johnsonville, Tennessee, as "eventual socialization of all industry."

Association President P. L. Smith charged that "TVA forces are opening a new, more vigorous campaign to get the plant." He added that the free enterprise system of the United States is at stake in the controversy.

In a booklet, "TVA's New Design for Power," Smith said the issue over the \$84,000,000 project "should not be a power company fight alone. It involves everyone interested in preserving the American way of life."

The booklet emphasized the association's opposition to any government project which would launch "the Federal government into a commercial business."

## California

### Power Truce Reached

THE U. S. Bureau of Reclamation and the Pacific Gas and Electric Company effected a truce recently in their long fight over distribution of power generated at Shasta dam.

By temporary agreement, revocable on twenty-four hours' notice, the company will continue to receive Shasta power at the substation near Cottonwood and

distribute it precisely as it distributes power from 75 other sources. The agreement will prolong an emergency wartime contract, entered into in 1943, which expired at midnight on December 31st.

That contract covered two of the Shasta generators with an installed capacity of 150,000 kilowatts. An additional 150,000 kilowatts, generated by two newly completed generators, is being

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distributed by the PG&E under a day-to-day agreement. A fifth 75,000-kilowatt unit is expected to be in operation by March 1st.

Under the wartime contract, the company paid approximately 4 mills per kilowatt hour for Shasta power. The temporary agreement fixes the price at about 5 mills. This figure will yield the bureau about \$8,156,000 for 1949 for power from the four existing generators—an

increase of more than \$1,700,000 over 1948. In addition to the higher rate, the agreement gives the company rent-free usage of the government's Oroville-Shasta transmission line.

The company will continue to deliver power to pumping plants at Tracy and at Contra Costa and to other Central valley projects on an exchange basis—delivering four kilowatt hours for every seven received at Shasta.

## Connecticut

### Utility Authorized to Hike Rates

THE state public utilities commission last month authorized the Connecticut Power Company to raise its gas and electric rates on January 15th. The new rates affect about 110,000 customers and will add about \$540,000 a year to the company's revenues.

The company indicated that it may need further rate raises to meet greatly increased costs of proposed plant construction.

The gas rate increase will add about 50 cents a month to each gas customer's bill.

The electric rate increase will be made by applying a fuel charge to bills of residential and small commercial customers. It has been applied only to bills of industrial or large commercial customers. It will add about 5 cents to the bill of a customer using 50 kilowatt hours a month, 20 cents to the 200-kilowatt-hour-a-month customer, and proportionately more in the case of large use customers.

## Georgia

### Power Rates Raised

RESIDENTIAL and commercial electrical rates in Savannah have been raised by \$340,000, effective January 15th, the state public service commission announced recently.

The increase will bring \$34,000 less revenue than the amount requested by

the Savannah Electric & Power Company in a petition filed on August 11th.

The commission refused to grant increases on water-heating rates and granted a smaller increase for medium and large consumers than had been requested by the company.

The higher rates will give the company a 6.47 per cent investment return.

## Indiana

### Commission Head Named

ROSCOE C. O'BYRNE, Brookville, former judge of the Franklin-Union Circuit Court, was named the new chairman of the state public service commission by Governor-elect Henry F.

Schricker last month. The other two places on the commission were left vacant for the present. Mr. O'Byrne succeeded Leroy E. Yoder, Goshen Republican, when the new Democratic administration took office on January 10th.

## Massachusetts

### Power Interchange Agreement Authorized

THE board of public trustees of the Metropolitan Transit Authority last month authorized an agreement with the Boston Edison Company for the interchange of power in the event of any emergency breakdown in either's power supply or when it is to the advantage of either party to do so.

"The principal advantage to the MTA," Henry Parkman, acting chairman of the public trustees, explained, "is that it will result in maintaining the

MTA system in a state of constant readiness to serve the public. In the case of a breakdown in the MTA's power generating plant, it will prevent any possible shutdown of MTA service by means of an instantaneous shift to the power lines of the Boston Edison Company.

"Both parties will benefit, in that it will permit either party to sell to the other electric current up to 40,000 kilowatts per hour in the event of an emergency breakdown in the power supply of either or when it is to the advantage of either party to do so."

## New York

### Electric Rates Cut—Gas Raised

THE state public service commission on December 30th ordered Consolidated Edison Company to slash by 10 per cent its electric rates for 2,154,000 customers, but at the same time the utility received various increases in gas rates for its 1,119,000 customers.

Although no comparison was made by Consolidated Edison or by the state commission, which handed down the two decisions, it was indicated that for many customers the reduction in electric charges will be more than offset by a higher gas rate.

The commission said the decrease in electric rates would provide a saving of \$21,500,000 on an annual basis—the largest single reduction in the history of New York utilities. The increase in gas rates, the commission said, would amount to about \$11,440,000.

Both of the rate changes are temporary, pending a final determination. The electric rate reduction was effective January 10th. The increases in gas rates may be charged after three days' notice to the public.

The Kings County Lighting Company, which supplies gas to about 115,000 customers in Brooklyn, also was authorized

last month by the state commission to file new tariff schedules which will increase the company's total gas rates about \$376,500. Under the new schedules customers will face increases of 3.7 to 13 per cent in their monthly bills, depending on amount of gas used.

Chairman Milo R. Maltbie of the commission said that the company, which had asked for a total increase of about \$415,000, would revise its tariffs to the commission's figures and the new rates would take effect on five days' notice on an interim basis until June 30th.

### Maltbie Resigns

MILLO R. MALTBIE, seventy-seven-year-old chairman of the state public service commission, last month applied for retirement after eighteen years of service in that post under Democratic and Republican governors.

Mr. Maltbie, a Democrat, first submitted his resignation to Governor Thomas E. Dewey on June 14th. The governor took no action, and Mr. Maltbie continued to serve. It was believed the governor would be ready to appoint his successor by the time Mr. Maltbie's retirement becomes effective on January 22nd.

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### Oregon

#### PUD's Must Get Voters' Approval

PEOPLES utility districts, before issuing revenue bonds, must receive approval of the voters, the state supreme court decided in a unanimous decision recently.

The decision was in a suit brought by P. E. Fullerton, a taxpayer, against the central Lincoln Peoples Utility District. Directors of the district had voted to issue \$200,000 of revenue bonds to enlarge their electric facilities but failed to ask a vote of the people.

The decision, which was written by Justice Arthur D. Hay, affirmed Circuit

Judge Carl Wimberly of Lincoln county.

#### Joint Pole Use Shunned

THE Portland General Electric Company recently rejected a Salem Electric Coöperative overture for joint use of poles, which would give the latter utility an auxiliary transmission line linking downtown Salem users with the North Salem Bonneville substation.

Portland General Electric Company officials said such action would result in confusion. Voters at the general election granted the Salem Electric Coöperative expanded franchise privileges in the city.

### Pennsylvania

#### UMW Urges State Tax

THE United Mine Workers of America recently proposed a state tax on fuel oil and natural gas to replace what the union termed the present local "tax anything law."

The local tax law, enacted in 1947, permits local units of government to impose levies on anything not taxed by the state. Many local taxing bodies in coal

areas have placed levies on coal when it is removed from the ground.

The UMW announced its advocacy of the new levy after a legislative conference attended by more than 50 national and district officers of the union.

A spokesman said the proposed tax would be levied on fuel oil and natural gas used within the state as well as "fuel which flows through Pennsylvania."

### South Carolina

#### Santee-Cooper Head Denies "Suspicion"

STATE Senator R. M. Jefferies on December 31st denied a charge that South Carolinians have reason to view the state public service authority (Santee-Cooper) with suspicion and distrust. Jefferies, general manager of the huge Santee-Cooper project, said there were no plans afoot to invade the field of private enterprise and compete with private utilities.

His statement came after a Charleston newspaper suggested the state general

assembly investigate the authority "to ascertain the facts behind the suspicion and distrust with which the authority is viewed by so many South Carolinians."

Jefferies said, "as for invading private enterprise, we are trying to stimulate private enterprise by attracting new industry to the state with low-cost power and plenty of it."

When asked if there was a tie-in between Santee-Cooper and Central Electric Power Coöperatives, Inc., now trying to get \$7,959,500 Federal money for building rural electric lines, Jefferies replied:



## PUBLIC UTILITIES FORTNIGHTLY

We hope there will be. We hope to get our power to the farmers who so badly need it. We certainly can't depend on the private utilities to carry it to them.

Walter C. Herbert, director of the electric utilities division, state public service commission, recently said there was no need for any new distribution lines in the state, except in certain few and limited places.

The Central Power Coöperatives have been granted a Federal loan of nearly \$8,000,000 to build 734 miles of rural

lines to distribute low-cost Santee-Cooper power, mostly through parts of the Pee Dee area and central South Carolina.

Officials of the private power companies in the state have objected to the loan, charging the co-ops are helping Santee-Cooper prepare to compete with private utilities to the "nth degree." S. C. McMeekin, president of the South Carolina Electric & Gas Company, said his firm would distribute Santee-Cooper power to the coöperatives "without a penny of profit."

## Washington

### PUD Wins Right to Sue

**G**IVING Snohomish County Public Utility District No. 1 permission to begin its second condemnation suit against properties of the Puget Sound Power & Light Company, United States District Judge Lloyd L. Black last month granted the PUD a decree of public use and necessity.

The date for trial of the suit was not set. The properties the PUD seeks are

in Snohomish and Island counties. The company was awarded \$9,500,000 for those facilities in a similar action in March, 1943. The award was rejected by the PUD as too high.

Judge Black pointed out that the PUD is the first one in the state to begin a condemnation proceeding in Federal court and is the first to begin a second action after having turned down an award in a prior action.

## Wisconsin

### Strike against Co-op Postponed

**A**THREATENED strike which would have cut off electricity to 65,000 customers in four states has been averted, at least temporarily, the Dairyland Power Coöperative announced recently.

John Madgett, the coöperative's manager, said the AFL electrical workers had agreed to hold up any strike action

until at least the end of January. Meanwhile, negotiations would continue, he said. The contract with the coöperative expired December 31st.

About 100 members of the union had filed notice that they would walk out after the first of the year if their demands for contract improvements and wage increases were not met.

## Wyoming

### Heating Expansion Delayed

**I**NSTALLATION of additional gas furnaces and heaters may continue to be banned in Laramie despite a fuel conservation program.

JAN. 20, 1949

Earl Burns, chairman of the state public service commission, said that the commission had not yet decided whether to revoke or continue its recent order banning the installations.



## Progress of Regulation

### Service Denial to Enforce Payment Impairs Public Relations

**T**HE Utah commission, in authorizing rate increases for a telephone company, approved a discount for prompt payment but disapproved a policy of discontinuing service in cases of slow or delinquent payments. The commission said:

... the area served by the applicant con-

sists of small communities in which practically all of the residents are acquainted with each other, and resort to discontinuance of telephone service as a means of enforcing payment of delinquent telephone bills creates difficult public relations between the management ... and its patrons ...

*Re Gunnison Telep. Co. (Case No. 3325).*



### Free Service beyond First Exchange Ended

**T**HE Indiana commission approved the cancellation of free service beyond the first or next adjacent telephone exchange upon conversion to automatic dial services. The company was in the process of converting to automatic dial service and was installing 2-way dial trunk telephone lines between certain exchanges.

After conversion each exchange would be full automatic and no operator would be in attendance. The commission found:

That it would be unreasonably burdensome and expensive for said petitioner to maintain an operator at any exchange or to install additional equipment to handle free long-distance service beyond the first and next adjacent exchange and the use of this service would be difficult for the public. That toll rates to be applied where free service is discontinued should be the same as the present toll rates authorized for Indiana Bell Company and that the income from such tolls would be negligible.

*Re Eastern Indiana Telep. Co. (No. 20582).*



### Commission Cannot Decide Legal Matters

**A**FTER hearing evidence as to the manner in which a lease of a motor carrier certificate had been broken, the Colorado commission made this observation as to the limits of the commission's jurisdiction:

We cannot decide legal matters—as for instance, whether the lease has or has not been breached to the extent that Resler is

justified in canceling it. That is a court question. We are limited to the question of whether lessee's service and practices have been so inconsistent as to justify cancellation of his operating rights (and possibly in a suitable case the cancellation of the certificate).

*Re Resler (Application No. 8930, Decision No. 31350).*

## PUBLIC UTILITIES FORTNIGHTLY

### Cab Certificate to Meet Geographical Needs

THE Colorado commission granted a certificate for taxicab service to an area outside the geographical limits of a city which had already issued a franchise for an intracity operation.

The city of Pueblo, the commission observed, was so situated that much annoyance to the public resulted from the fact that several hospitals and hotels, the main railroad station, and a large industrial plant were technically outside the city limits although they were, for all

practical purposes, part of the city. The commission consequently awarded a certificate to the carrier to serve outside the city so that the public would not be inconvenienced by having to change carriers at the city line.

The fact that one of the company owners had pleaded guilty to a misdemeanor charge was not in itself considered disqualifying. *Re Wright et al. (Application No. 9405, Decision No. 31381).*



### Transfer of Certificate of Heavily Indebted Motor Carrier Authorized

THE Colorado commission authorized the sale of a certificate of a motor carrier which was heavily in debt even though the sales price was not sufficient to pay all of the carrier's creditors.

The commission could see no advantage in refusing to authorize the

transfer where the service rendered by the debtor carrier had not been satisfactory and where the carrier seeking the authority was an experienced operator who was well qualified pecuniarily and otherwise to render satisfactory service. *Re Clark (Application No. 9349-PP-Transfer, Decision No. 31387).*



### Firms Not Allowed to Handle Financing of Affiliate without Competitive Bids

THE Federal Power Commission, in granting authority to Tennessee Gas Transmission Company to construct and operate additional pipe-line facilities, attached a condition that any debt securities to finance these facilities should be sold at open competitive bidding. The company had intended to let Stone & Webster Securities Corporation and White, Weld & Co. handle the financing.

White, Weld & Co. and Stone & Webster, Inc. (parent of Stone & Webster Securities Corporation), were said to be predominant stockholders of the Tennessee Company. No other financial houses, underwriters, or other persons had been given an opportunity to submit proposals with respect to financing. Halsey, Stuart & Co., Inc., intervened and advocated that any certificate should be conditioned with the requirement that

debt securities be sold at open competitive bidding. This financial house proposed to bid.

Because of the lack of arm's-length relationship, the commission said, it would not be in the public interest to permit the company to undertake financing under arrangements where it would be headed and managed by the dominant financial interests in the company. The evidence, said the commission, indicated that competitive bidding might be expected to produce more economical financing. It would assure a canvass of the money market, thus offsetting the lack of arm's-length relationship.

The plan and method of financing were said to be an important factor requiring the commission's consideration in determining, under § 7 of the Natural Gas Act, whether public convenience and

## PROGRESS OF REGULATION

necessity require construction and operation of the proposed facilities.

None of the parties had questioned the commission's authority to attach a condition requiring competitive bidding

to a certificate under that section of the act. Section 7(e), it was pointed out, provides that the commission has power to attach conditions. *Re Atlantic Seaboard Corp. et al. (Docket Nos. G-854, G-962).*

### Intrastate Character of Shipments Not Changed by Use of Out-of-state Highways

THE Pennsylvania commission ordered a motor carrier to cease operation not permitted by its certificate, notwithstanding the carrier's protest that the operations were interstate and beyond state authority.

The shipments in question were between two points in Pennsylvania over Ohio highways. The carrier's interstate certificate did not authorize the shipments questioned by the state commission.

The commission pointed out:

Since the Interstate Commerce Commission has not characterized such transportation interstate, this commission has jurisdiction to inquire whether the commerce in question was intrastate, in fact. . . .

Accordingly this commission has jurisdiction also to determine whether the carriage of metal grinding compound and steel shafts across the state line in this case was a mere subterfuge to evade the regulatory authority of this state.

In applying these factors, the commission discovered that the distance was 26 miles greater over the out-of-state route and that no out-of-state terminal was used for either pickup or delivery.

As further proof of the intrastate character of the shipment, the commission pointed out that the intention of the shipper, which is often considered controlling, was to effect an intrastate movement. *Re Metz (Application Docket No. 40876).*

### Public Interest in Security Issues

THE Alabama commission authorized Mobile Gas Service Corporation to issue debentures maturing after twenty years and carrying an interest rate not to exceed 4 per cent. The proceeds are to be used mainly for the extension and improvement of the company's gas distribution system.

In passing upon an application for approval of such a transaction, said the commission, consideration must be given to the entire public interest to be affected.

The commission explained as follows:

It cannot be reasonably overlooked that, in any proceeding of this character, the public interest involved embraces not only the interest of those who now are, or may hereafter become the holders of the securities of petitioner, but also involves the ability of the utility to meet its obligations thereafter under the law to provide adequate service at reasonable rates at all times to its customers.

*Re Mobile Gas Service Corp. (Docket 11845).*

### No Delay on Stock Retirement

THE Securities and Exchange Commission ruled that American Light & Traction Company, a subsidiary of United Light & Railways Company, may not further delay retirement of preferred stock required as part of a reorganization

plan. The commission said that it would take steps to assure compliance unless the management acts promptly.

Some portions of the plan are involved in proceedings before the Federal Court of Appeals. The commission decided,

## PUBLIC UTILITIES FORTNIGHTLY

however, that this does not prevent retirement of this stock.

None of the steps of the plan can be completed until the holding company acquires the preferred stock. Nevertheless the board of directors had adopted a resolution declaring that it would not be practical to purchase this stock until a satisfactory opinion has been rendered by the court upholding the commission's order.

The commission, however, noted that the court review does not relate to the stock retirement phase. The commission would not agree that this was not a

"practicable" time to carry out the provision relating to stock retirement. Necessary funds had been made available. Nothing unforeseen had entered the picture to upset the timetable clearly envisaged by those presenting the plan.

The commission ruled that its reserve powers clearly include the power to determine the sequence and timing of steps to be taken in the consummation of a simplification plan so that the objectives will not be defeated by the action or non-action of the management. *Re United Light & Railways Co. et al.* (File Nos. 59-11, 59-17, 54-25, Release No. 8538).



### Volume Gas Rate Must Cover Cost

THE North Carolina Utilities Commission overruled the objection of large users of gas to a new rate providing for billing for gas consumption over 6,000 cubic feet at a straight rate of one dollar per thousand cubic feet.

To the protest that such a rate schedule would not offer any incentive for industrial expansion in the area served by the utility, the commission replied with the following comment:

While the commission can appreciate the position taken by the protestants, at the same time the commission is strongly opposed to any class or group of customers receiving service at less than the actual cost of furnishing same for the reason that when any customer of any public utility pays less than it costs the utility to provide the service other customers are required to pay more than they should pay to subsidize the other customers.

*Re Goldsboro Gas Co.* (Docket No. 4398).



### Investment Bankers Denied Right to Acquire Control of Holding Company Undergoing Liquidation

THE Securities and Exchange Commission disapproved the proposed sale by the Middle West Corporation of its entire interest in the common stock of United Public Service Corporation to investment bankers. It believed that the transaction would interfere with the carrying out of the provisions of § 11 of the Holding Company Act.

The United system was in the process of liquidation. The contract of sale was specifically conditioned on the entry of a commission order exempting the purchaser as a holding company from the requirements of the Holding Company Act.

The commission observed that approval of the acquisition on the proposed

terms would result in a shift of control of the liquidation process from a registered holding company to a controlling group specifically exempted from the provisions of the act. It did not consider this appropriate at this stage of the liquidation process.

The proposed transaction also raised the question whether a sale by the holding company of its interest in the subholding company was an appropriate means of compliance with § 11 of the act. The commission said:

The statutory policy expressed in that section requires the termination of the existence of any company whose continued existence unduly or unnecessarily complicates the structure of the holding company system of which it is a member, or unfairly



## PROGRESS OF REGULATION

or inequitably distributes voting power among the security holders of such system. The record indicates that United performs no essential function and is merely a corporate shell interposed between UPU and Middle West. Further, the existence of United makes it possible for the holder of the 56 per cent Middle West interest in that company to control the UPU system, though the Middle West holdings in United represent only approximately a 22 per cent interest in UPU. The evils of continuing such unnecessary pyramiding are in sharp

conflict with the purposes of the statute. For these reasons it would appear that § 11 requires Middle West to comply with the order of January 24, 1944, directing it to dispose of its interest in United, by causing that company to be liquidated and dissolved, and that, accordingly, the proposed transaction is detrimental to the carrying out of the provisions of § 11.

*Re Middle West Corp. et al. (File Nos. 70-1851, 31-559, Release No. 8421).*



## Other Important Rulings

**A**SUIT brought by the United States against the Interstate Commerce Commission and the United States to set aside an order of the commission which dismissed a complaint of the United States seeking an allowance from railroads for wharfage and hauling services was dismissed by the United States District Court for the District of Columbia under the rule that no person may sue himself. *United States v. Interstate Commerce Commission*, 78 F Supp 580.

The Colorado commission, in authorizing an electric company to sell its properties and operating rights to another electric company, stated that a property owner should be allowed to sell, unless it would be detrimental to the public to do so. *Re Inland Utilities Co. et al. (Decision No. 31119, Application No. 9448)*.

The special term of the New York Supreme Court for Bronx county ruled that the application of a tavern for restoration of telephone service which had been discontinued when the tavern manager and one of the employees had been arrested for gambling charges, should be granted upon their acquittal of the charges, subject to the utility's having facilities available. *Tavern v. New York Teleph. Co.* 82 NY Supp 515.

A telephone rate differential between subscriber-owned and company-owned telephone instruments was approved by the Wisconsin commission for a small telephone company serving principally

stockholders, providing that the reduced rates for service where the subscriber owns his own instrument be made available to both stockholders and nonstockholders. *Re Hull Teleph. Co. (2-U-2807)*.

The Wisconsin commission, in authorizing new rates for a municipal water utility, ordered that a rate be set up to cover flushing and sprinkling service which had previously been rendered to the city free of charge, and also that private fire protection service rates be designed to compensate the utility for the cost incurred in being ready to supply such a stand-by consumer at any time. *Re Evansville (2-U-2775)*.

When customers of a municipal water plant objected to additional customers being included on their extended water main, the Wisconsin commission investigated the matter and after determining that increased costs would be involved if additional customers were included, ordered that the original applicants for service be considered as a separate group for the purpose of determining their proper contributions to the cost of the extension. *Re City of Tomahawk (2-U-2768)*.

The Louisiana commission authorized the issuance of common stock, mortgage bonds, and debentures which would result in a decrease in the ratio of common stock equity from 55.5 per cent of the total capital and surplus to 43.2 per cent, stating that this decrease was not suffi-

## PUBLIC UTILITIES FORTNIGHTLY

cient to warrant adverse findings, particularly since even after refinancing the common stock ratio was higher than necessary for financial soundness. *Re Central Louisiana Electric Co., Inc. (Order No. 4969, No. 5036).*

A telephone company was allowed a temporary rate increase by the Missouri commission, even though its evidence as to the original cost of property was inconclusive and its income statements were open to criticism, where the commission was convinced that the company had a sizable investment in plant and that its net return was not even approximately a fair return to the utility owner. *Re Western Light & Teleph. Co., Inc. (Case No. 11,176).*

The Securities and Exchange Commission, in permitting subsidiaries to change the par value of common stock and reclassify the stock, and permitting the acquisition of the reclassified stock by a holding company in exchange for

presently outstanding stock, decided that it was not necessary to impose a condition as to prompt divestment of holding company assets, since a divestment order was outstanding and the commission's order approving a plan for liquidation and dissolution contained a reservation of jurisdiction to insure prompt divestment. *Re North American Light & Power Co. et al. (File No. 70-1963, Release No. 8625).*

The foreign air carrier permit of an air line operating between the Philippines and the United States was amended to include the island of Guam, when it appeared that the presence of a large number of Filipino citizens on Guam had created a strong community of interest between that island and the Philippines and where, by reason of reciprocal rights granted in a bilateral agreement between the United States and the Philippines, the proposed amendment would be in the public interest. *Re Philippine Air Lines (Docket No. 3478).*

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*Public Utilities Reports (New Series)* are published in five bound volumes annually, with an Annual Digest. These Reports contain the cases preprinted in the issues of PUBLIC UTILITIES FORTNIGHTLY, as well as additional cases and digests of cases. The volumes are \$7.50 each; the Annual Digest \$6.00. *Public Utilities Reports* also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."

KENTUCKY PUBLIC SERVICE COMMISSION

Re Southern Bell Telephone & Telegraph Company

November 9, 1948

**P**ROCEEDING relating to proposed increase in intrastate telephone rates; rate increase denied and company required to refund excess collected since original order of suspension.

*Rates, § 186 — Reasonableness — Burden of proof.*

1. The burden is upon a company seeking increased rates to show that the proposed rate structure is a reasonable one for a reasonable period of time in the immediate future, p. 36.

*Rates, § 1 — Frequent fluctuation.*

2. Utility rates should not fluctuate either upward or downward habitually every six months, as this is unfair to the investor, to management, and more especially to the public, p. 36.

*Rates, § 152 — Reasonableness — Forecast for future.*

3. Because a utility earns much or little during a short period is no reason why its rates should be altered unless there is good reason to believe that the excess or the deficiency in earnings will continue into the future, p. 36.

*Rates, § 648 — Evidence — Past record — Future estimates.*

4. Data in a rate investigation should cover several years, showing in reasonable detail records for the past and estimates for the future, so that the various items of operating income and of operating expenses may be compared for the various years to establish their trends and to determine to what extent each is likely to recur; because proposed rates may or may not appear reasonable in the light of an eight months' period is nowise conclusive that they may or may not be appropriate in the light of ensuing months or years, particularly when that period is abnormal, p. 37.

*Rates, § 174 — Reasonableness — Determination of rate base.*

5. Determination of the rate base is the first step in considering the reasonableness of any rate structure; the prime essential is the amount upon which the utility should be permitted to earn, p. 37.

*Valuation, § 21 — Rate base determination — Average investment.*

6. Evidence as to average investment is entirely irrelevant as a rate base when it includes original cost of plant in use, under construction, or held for future use, plus cash requirements, and makes no allowance for depreciation of plant, p. 37.

*Valuation, § 85 — Accrued depreciation.*

7. A public utility company should not be permitted to continue to earn on the amount of its original investment which has been recovered from the public to compensate for depreciation of plant, p. 37.

## KENTUCKY PUBLIC SERVICE COMMISSION

### *Valuation, § 224 — Plant under construction.*

8. Telephone plant under construction does not represent plant in use and has no place in a rate base; when construction is completed the amount transferred to plant in use includes not only the amount of original capital outlay but also interest on this amount during the period of construction, p. 38.

### *Valuation, § 290 — Working capital — Effect of advance payments — Tax accruals.*

9. A telephone company should not be allowed an amount for working capital representing operating expenses paid in advance where advance payment of revenues and delayed payment of accrued taxes more than offset actual cash requirements, p. 38.

### *Valuation, § 36 — Rate base — Net average capital investment.*

10. A company cannot complain that the rate base is inequitable when it is equal to or exceeds the net amount of the average capital investment, p. 38.

### *Valuation, § 409 — Evidence of reproduction cost — Admissibility.*

11. Evidence as to the cost of reproduction is admissible as a factor in determining the rate base, p. 39.

### *Valuation, § 413 — Evidence of reproduction cost — Objectionable features.*

12. Evidence of reproduction cost is none too satisfactory when the testimony does not show whether reproduction prices are based upon present-day costs for single units or for quantity lots, prices are estimated as of a certain date and brought forward to a later date by formula, prices are not averaged over the period which would be required to reproduce the plant, much of the plant could not reasonably be reproduced and would not be reproduced because of obsolescence, and a modern plant would differ from the existing plant, p. 39.

### *Valuation, § 75 — Reproduction cost — Cost of money as a factor.*

13. For rate-making purposes the ephemeral factor of reproduction cost as of a given date cannot be divorced from the related cost of reproduction money as of the same date, p. 40.

### *Revenues, § 1 — Overcharges credited on bills.*

14. The amount of overcharges made during a preceding period, credited to customers on current bills instead of being paid to them, is as much a part of operating revenues for the period as the checks and currency which actually went into the cash drawer and should be considered in arriving at the rate of return, p. 40.

### *Revenues, § 1 — Telephone company — Intrastate and interstate tolls.*

15. The Commission, in considering revenues for intrastate telephone service for the purpose of rate making, should consider the fact that intrastate tolls are much higher than interstate tolls for corresponding distances, p. 41.

### *Discrimination, § 181 — Telephone rates — Interstate and intrastate tolls.*

16. A proposed increase in intrastate telephone toll charges which would make intrastate tolls 54 per cent higher than interstate tolls for corresponding distances would be discriminatory; it would amount to subsidization of interstate operations by intrastate revenues, p. 41.

## RE SOUTHERN BELL TELEPH. & TELEG. CO.

*Rates, § 198 — Powers of state Commission — Intrastate and interstate telephone tolls.*

17. The state Commission, although lacking jurisdiction over interstate telephone toll rates, is not required to approve intrastate toll rates to subsidize interstate service, p. 41.

*Expenses, § 87 — Payment to parent telephone company — Recognition of reduction.*

18. A telephone company which in the past has paid  $1\frac{1}{2}$  per cent of gross operating revenues to a parent company for services and licenses should be allowed no more than one per cent as an operating expense for the future when it is a matter of public knowledge that since the rate hearings were held the charge of  $1\frac{1}{2}$  per cent has been reduced to one per cent, p. 41.

*Apportionment, § 7 — Telephone company — Use basis.*

19. Total value of telephone plant used in common for both toll and local services (such as the instrument on the subscriber's desk and the circuit connecting it to the local switchboard), as well as expenses of maintenance, depreciation, and ad valorem taxes incident thereto, should not be allocated to each respective service in proportion to the time they are in use for toll service and for local service respectively, without considering the standby value to the subscriber, p. 45.

*Apportionment, § 7 — Telephone company — Value-of-service basis.*

20. Expenses incurred incident to the common use of telephone plant by various classes of service, as well as accounts pertaining to plant used in common, may equitably be allocated upon the basis of value of service—the basis for allocating rates generally, p. 45.

*Apportionment, § 7 — Telephone company — Local and toll services.*

21. Plant accounts of an intrastate telephone company which is part of a closely integrated and interdependent telephone system should be allocated to local and toll services upon a similar basis to that used in allocating local services—value of service, p. 46.

*Apportionment, § 1 — Burden of proof.*

22. The burden is upon a telephone company seeking a rate increase to make and present an allocation study based upon sound and equitable principles of separation and allocation, p. 46.

*Return, § 26 — Cost of money — Maintenance of credit.*

23. A formula submitted to show the return requirements of a telephone company in order to maintain its credit was held to be fraught with fallacy where it provided for 2.82 per cent on debt capital without considering the credit of the parent company; 9 per cent on equity capital; and 6.79 per cent on its allocable portion of funds held available by the parent company for subsidiaries—deriving a demand for an annual return of 6.66 per cent on its net investment, p. 46.

*Return, § 26 — Bond money factor — Company in nation-wide system.*

24. The bond money factor for a formula to determine the return required by a telephone company to maintain its credit must include not only the percentage of company debt capital but also the bond money of its parent company which supports another percentage of the subsidiary's capital, when the credit of the subsidiary is inseparably tied up with and dependent upon the credit of the nation-wide system to which it belongs, p. 46.



## KENTUCKY PUBLIC SERVICE COMMISSION

WHITTLE, Commissioner: For the third time within barely eighteen months The Southern Bell Telephone and Telegraph Company on July 16, 1948, increased its intrastate rates in Kentucky. It is estimated that this latest increase will yield an additional \$2,065,000 annually in operating revenues. Of this amount increased intrastate tolls account for \$415,000, while increased local exchange rates and some miscellaneous items account for the balance. The amount of the increase in tolls is estimated from the volume of long-distance business of the company for the quarter ending March 31, 1948, and the balance is estimated from the number of telephones in service at the end of that period.

Notice of the increase was filed with the Commission on June 22, 1948. It being impractical to conduct hearings and determine the reasonableness of the increase before it became effective, the Commission suspended the proposed rates for a period of 120 days. Whereupon, the company, as authorized by K.R.S. 278.190, filed its bond in the amount of \$750,000 conditioned to refund to the persons entitled thereto the amount of the excess if the increased rates are not finally approved, and made them effective notwithstanding the suspension.

Protests against the increased rates were filed by a large number of cities, counties, civic organizations, and individuals.

At a hearing held on July 27 and 28, 1948, the company concluded its evidence in chief; and, at this point,—the 120-day period of suspension being about to expire,—the Commission is confronted with the question of

whether this evidence, uncontradicted, supports the increase in rates.

[1-3] The burden is upon the company to show that the proposed rate structure is a reasonable one for a reasonable period of time in the immediate future. Utility rates should not fluctuate either upward or downward habitually every six months. It is unfair to the investor, to management, and, more especially, to the public. Rates necessarily are made for the future, and neither management nor regulatory Commissions possess the foresight to fix a rate structure which will yield with precision and exactness a given rate of return for any future period of time. At the end of a given year the operating income will nearly always show a slight excess or a slight deficiency from that anticipated; but over a period of years these fluctuations tend to offset and equalize each other, thereby minimizing any resulting injustice to the utility or to the public. Because a utility earns much or little, therefore, during a period of a few months—eight months in this case—is no reason why its rates should be altered unless there is good reason to believe that the excess or the deficiency in earnings will continue into the future.

It is shown, for example, that during the period of 1920 to 1946 the annual earnings of the American Telephone and Telegraph Company (of which the Southern Bell Telephone and Telegraph Company is a wholly owned subsidiary) on its stockholders' investments have ranged all the way from 3.82 per cent to 11.26 per cent. Obviously, the one was too low and the other too high. In each instance, however, earnings for the ensuing year

## RE SOUTHERN BELL TELEPH. & TELEG. CO.

swung back toward the median; and the average for the period has been 7.79 per cent. During that period rate changes have been few, but in the long run deficiencies and excesses in earnings have so offset each other from year to year as to work no great injustice to the investor.

Any rate structure, therefore, should strive for stability, and its design should not ricochet at every reaction of the economic seismometer.

[4] The task of adjudging such a structure from the evidence in this case is extremely difficult, if not altogether impossible, because nearly all of the pertinent data relates only to a period of eight months ending March 31, 1948. It should cover several years, showing in reasonable detail records for the past and estimates for the future, so that the various items of operating income and of operating expenses might be compared for the various years to establish their trends and to determine to what extent each is likely to recur. Without such data it is impossible to determine such trends or to make reliable estimates for the future. Because the proposed rates may or may not appear reasonable in the light of an eight-months' period ending March 31, 1948, is nowise conclusive that they may or may not be appropriate in the light of ensuing months or years. This would be true even if these eight months had been normal ones, and it is all the more true because they probably constitute one of the most abnormal periods in the operating history of the company.

Even the data concerning this period is sketchy, fragmentary, and much of

it entirely extraneous, when called upon to support the rate structure proposed in this case.

[5] In considering the reasonableness of any rate structure the first step is the determination of the rate base: the amount upon which the utility should be permitted to earn. That is the prime essential. Without it all other calculations are futile and meaningless. In arriving at a rate base many factors may be considered; and in this case the company has approached it from several distinct angles.

[6] In the first place, considerable testimony was introduced to show that for the eight-months' period in question the "average investment" in the combined telephone operations in Kentucky was \$48,098,958. As a rate base, however, the figure is entirely irrelevant. It includes the original cost of the plant in use, under construction, or held for future use, plus cash requirements, and makes no allowance whatever for depreciation of plant.

[7] From year to year a utility is permitted to earn not only a reasonable return upon its rate base but also a sum sufficient to compensate it for the deterioration of its plant. The accumulations set aside on this account by this company over the years amounted on the average to \$13,852,154 for the eight-months' period under consideration. This amount of the original investment has been recovered by the investor from the public to compensate for the depreciation of the plant. To permit the company to continue to earn on this amount is the equivalent of requiring the debtor to continue paying interest upon the en-

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tire amount of an obligation which he has already discharged in part rather than upon the unpaid balance only. It is so manifestly unjust and unreasonable that the company does not even pretend that this is a proper rate base. It is difficult to understand, therefore, why the inadequacy of the rate of return on this amount should be stressed over and over in this proceeding.

[8] The amount of \$1,450,751 is also included in the above sum on account of telephone plant under construction. This does not represent plant in use and has no place in a rate base. When this construction is completed and the amount transferred to plant in use, it will be made to include not only this amount of original capital outlay but also interest on this amount during the period of construction. To permit the company to earn on this amount as a part of its rate base and to accrue interest on it simultaneously obviously would be improper.

[9] The further sum of \$468,138 is included for cash requirements. It is not claimed that this is the average amount of cash actually kept on hand nor the amount necessary to pay accrued operating expenses in advance of the collection of corresponding operating revenues. Rather, it is an unrealistic amount theoretically derived from some study. Realistically, it is shown that for the twelve-months' period ending March 31, 1947, because of the company's access to the pool of funds provided by the parent company under the terms of its service contract, "the readily available funds carried on Southern Bell's books was only about a six-days' supply of money." The amount for the eight-months' period

ending a year later is not disclosed; but the pool of funds was still available and a simple calculation shows that the sum of \$205,845 was sufficient to meet operating expenses in Kentucky (exclusive of depreciation and taxes), for a period of six days. Against this amount must be considered the sum \$847,634 in local service revenues which were payable in advance each month, and the sum of \$138,108 for taxes which each month were accrued on the average several weeks in advance of actual payment. In so far as it goes this record indicates that advance payment of revenues and delayed payment of accrued taxes more than offset actual cash requirements. To permit the company, then, to earn on this sum amounts to its earning upon money advanced by the customer instead of the investor.

When these three amounts—depreciation, construction work in progress, and cash requirements—are stricken from the gross investment, the net average investment for the eight-months' period ending March 31, 1948, is only \$32,327,915.

[10] Another factor advanced by the company in the consideration of a rate base is the amount of capital actually invested in its operations in Kentucky. The amount invested in intrastate operations on the average during the eight-months' period was \$28,761,063. Intrastate being 86.39 per cent of combined operations in Kentucky, the amount of the latter would be \$33,292,121; but when construction work in progress and cash requirements are excluded, the net amount of the average capital investment in combined operations in Kentucky for the period was only \$31,373,232. As long as the

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rate base is equal to or exceeds this amount, the company cannot complain that it is inequitable.

[11] In addition to average investment, net average investment, and capital investment, the cost of reproduction is also advanced as a factor in arriving at a rate base. It is provided by K.R.S. 278.290 that the Commission in determining the value of the company's plant shall consider this factor; and the Commission, seeking light on this problem from every cranny, is glad to hear evidence on this point.

[12] Unfortunately, the evidence is none too satisfactory. The study is made as of June 30, 1946, and brought forward by formula; but the testimony does not show whether reproduction prices are based upon present-day costs for single units or for quantity lots. It is not clear, for example, whether all of the elements of cost entering into the reproduction of a 25-foot, creosoted, pine pole are based upon the replacing of a single pole, of 100,000 poles, or of all of the poles in a system such as this, although it seems obvious that most of the elements of such cost—such as freight, labor, contract, overhead, and engineering—would vary greatly upon the various bases. Again, prices are estimated as of June 30, 1946, and brought forward to March 31, 1948, by formula; but at least five years would be required to reproduce such a plant, and prices should be averaged over an equal period.

Moreover, there is bound to be much of this plant which could not reasonably be reproduced nail for nail, nut for nut, and screw for screw. A great deal of it has been in service for more than

thirty years and is so obsolete that it cannot be reproduced from purchases in the open market any more than a "1918 Model T" can be so purchased. Consequently, any reproduction cost study predicated upon replacing the existing plant in every identical detail is bound to descend from mere guesswork to pure speculation and to become too unrealistic to carry any considerable weight in calculating a rate base.

This difficulty is further accentuated by the fact that no one would seriously consider reproducing such a plant in every detail. To do so in the light of improved equipment now available and other factors would be folly for the investor, stupidity in the management, and an imposition on the public. Instead, sound engineering would dictate that a modern plant be designed to render equivalent service to the customers. Doubtless there would be a total rearrangement of circuits and relocation of exchanges; the old, wooden-box, hand-cranked instrument which hangs on the wall in many places yet would give way to the modern dial instrument; modern switchboard equipment would be employed; and every detail would be geared to the newest-type equipment, present-day geography, and current demands for service, rather than to those characteristic from time to time during the past thirty to forty years. An estimate of the cost of such an equivalent plant might exceed considerably the original cost of the existing plant; but it would undoubtedly reduce materially the operating expenses and result in increased net operating income and earnings. In a strictly technical sense the cost of such an equivalent plant would nowise represent the reproduction cost

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of the existing plant, but it does tend to minimize the weight which should be given to reproduction cost in arriving at a rate base in this case.

[13] Even if the reproduction cost study submitted were clear and convincing, it shows a reproduction cost, less depreciation, of only \$40,058,789; for cash requirements, plant under construction and acquisition adjustment accounts have no place in it. But this amount is an ephemeral thing. It is one amount today and a far different amount tomorrow, subject to every fluctuation of the ever-shifting index of prices. For that reason it must always be considered and weighted in the light of the corresponding, but antipodal, shift in the cost of money.

Ordinarily about half of the capital structure of a utility consists of bond money raised by long-term bonds. Such money could be had in abundance as of June 30, 1946 (the date of the company's reproduction study) for about 2.50 per cent, or on March 31, 1948 (the date it was revised) for less than 3 per cent. On the other hand, when original cost is considered, the amount being an accumulation of expenditures from year to year over a long period, the average cost of bond money for that same period should also be considered. Its average cost for the corresponding period is shown to have been about 4 per cent in contrast to 2.50 per cent as of June 30, 1946. As the cost of money rises, prices generally go down—and vice versa. This is a matter of common knowledge and is aptly illustrated by the charts introduced in this case. This pattern of fluctuation is characteristic of the cost of equity capital as well as of the cost of bond money. For rate-

making purposes the ephemeral factor of reproduction cost as of a given date cannot be divorced from the related cost of reproduction money as of the same date. The utility which over a long period of years constructs a plant for \$32,327,915 while bond money is costing on the average of 4 per cent is in an equitable position to recover as much in earnings as the utility which reproduces that plant at the inflated cost of \$40,058,789 when bond money abounds at 2.50 or 3 per cent.

In view of this and of the unsatisfactory nature of the company's testimony, reproduction cost should not increase the rate base over the amount of the net investment figure already advanced. In fact, the reproduction factor, when adjusted to the cost of money, places the company in a less favorable position than the use of original cost or net investment alone. Even if the additional amount claimed for going concern value, which certainly has not been justified by the evidence, is added, the position of the company is still no better than when the net investment factor only is used—cost of money considered.

In this case, then, the average rate base for the eight-months' period ending March 31, 1948, can be considered as not exceeding \$32,327,915.

[14] The amount of net operating income claimed upon combined operations for the period is grossly inaccurate. In addition to the actual operating revenues reported, an additional sum of \$215,789 accrued. The company owed its subscribers this amount as a balance on account of overcharges made during the preceding eight-months' period; and instead of paying it to them, the company sim-



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ply credited it to them on their current bills. It was just as much a part of operating revenues for this period as the checks and the currency which actually went into the cash drawer; and the account of operating revenues for this period should show the inclusion of this amount, and it should be considered in arriving at the rate of return.

[15-17] In considering revenues there is another factor to which the Commission cannot close its eyes. Intrastate tolls are much higher than interstate tolls for corresponding distances. The charge for a call from Frankfort to Louisville is more than for one through Louisville to Jeffersonville, in Indiana; for one to Carrollton it is more than for one through Carrollton to Madison, in Indiana; and the same applies to all other similarly situated cities served by the company and its affiliates along the Kentucky border. The same company uses the same facilities to render the same service but charges an average of 37 per cent more when that service does not extend beyond the boundary of the state. The proposed rate increase raises this differential to 54 per cent. This is discrimination; and it amounts to subsidization of interstate operations by intrastate revenues. It cannot be justified by cost of service or by value of service. An imaginary state boundary line should no more deflect toll rates 54 per cent from their norm than it should refract a passing ray of light 54 per cent from its course. The company undertakes to account for this differential by saying that tolls are not based upon mileage but are distributed upon mileage, but admits that interstate tolls "may have to be

hiked." The latter statement is more comprehensible. Be that as it may, in an integrated system such as this, there is no apparent reason why the company should receive one sum for handling a given number of toll messages per year extending across the boundary line of Kentucky but should charge \$1,300,000 more for handling the same number of messages per year for identical distances if they do not extend across the boundary line of the state. This Commission lacks jurisdiction over interstate toll rates; but it is not required to approve intrastate toll rates to subsidize interstate service. In this case the company has introduced data concerning both its intrastate and its interstate investment, revenues, expenses, and rate of return upon its operations in Kentucky, and the Commission cannot be oblivious to the fact that if interstate tolls were not thus favored over intrastate tolls, it would have meant \$597,654 in additional operating revenues for the eight-months' period in question.

[18] Moreover, there is an operating expense item of \$151,858 on account of "Services and Licenses," the amount of which appears to rest upon caprice rather than reason. It is based upon  $1\frac{1}{2}$  per cent of the gross operating revenues of the company rather than upon the cost or the value of the services received; and since it is paid to the parent company, it cannot be allowed except to the extent that it is justified by services actually rendered. While the record does not disclose the fact, the Commission has been officially advised and it is a matter of public knowledge that since the hearings were held herein, this charge of  $1\frac{1}{2}$  per cent

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has been reduced to one per cent. Certainly, no more than this amount can be allowed as an operating expense for the future.

If adjustments are made to provide for accruals to the operating revenues account because of refunds, for the differential between intrastate toll rates and interstate toll rates, and for this revised amount of one per cent on account of "Services and Licenses" during the eight-months' period under consideration, with appropriate adjustments for taxes, the amount of the net operating income upon an annual basis is \$1,725,087.

When these adjustments are made, the operating results of combined operations in Kentucky for the eight-months' period ending March 31, 1948, appear as follows:

### *Average Investment*

Real Estate .....	\$3,792,483
Central Office Equipment .....	9,711,887
Outside Plant .....	22,372,571
Station Equipment .....	8,068,903
Furniture, Office, Vehicles, Equipment .....	1,320,881
Property Held for Future Use ..	34,477
Telephone Plant Acquisition Ad- justment .....	12
Materials and Supplies .....	878,855
Depreciation Reserve .....	(13,852,154)
Total Average Investment .....	\$32,327,915
Total Average Capital Invest- ment .....	\$31,373,232

### *Operating Revenues*

Local Service Revenues .....	\$6,781,072
Accruals from Refunds .....	215,789
Toll Service Revenues .....	3,798,052
Interstate Toll Differential .....	597,654
Miscellaneous Revenues .....	467,203
Uncollectible Operating Revenues ..	(32,482)
Total Operating Revenues .....	\$11,827,288

### *Operating Expenses*

Current Maintenance .....	\$2,491,988
Depreciation Expenses .....	1,233,387
Traffic Expenses .....	3,215,776
Commercial Expenses .....	1,084,157
Accounting Expenses .....	556,713
General and Miscellaneous Ex- penses .....	213,528
Operating Rents .....	222,198
Relief and Pensions .....	477,208
General Services and Licenses ..	109,373
Operating Taxes .....	1,072,902

Total Operating Expenses .. \$10,677,230

Net Operating Income .....

Per Cent Per Annum of Average Investment .....

5.34%

Per Cent Per Annum of Average Capital Investment .....

5.50%

The foregoing is the most favorable tabulation of operating results which can be derived from the evidence offered in this case by the company. Even if accepted as accurate, it indicates a return on the net investment during the eight-months' period under consideration at the rate of 5.34 per cent per annum. If the amount of the capital investment is used for a rate base, this percentage rises to 5.50. Had the increased rates been in effect, earnings would have exceeded 9 per cent on the capital investment in Kentucky. Even if the differential in favor of interstate tolls is ignored the net earnings on capital investment would have been 7.73 per cent.

It must be borne in mind, however, that none of the evidence concerning the rate base, the income, or the rate of return for this eight-months' period is anywise pertinent to the issue in this case except to the extent that it may indicate what these factors will be in the operating results for the future.

What the rate base is today, what it will be for the ensuing year, or what it may be for any future period of time, when the proposed new rate

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structure is to remain in effect, this record does not even purport to show. No attempt has been made to estimate it. The company is expending currently nearly a million dollars a month on its plant in Kentucky, but there is nothing to indicate the amount of the concurrent retirements in plant which are taking place. The Commission is asked to approve rates for the future, but there is no tangible evidence concerning a rate base either for the present or for the future.

The same is true of the amount of the net operating income. It is shown for the eight-months' period; but even for this period the primary accounts upon which the result is predicated are not shown, and no pretense is made at estimates for the future. It is shown that the company will increase its number of telephones during the current calendar year by 36,000 in Kentucky. Presumably this will bring in additional revenues. In fact, if revenues increase in proportion to the number of telephones and interstate tolls are "hiked" to intrastate levels, it will bring in an additional \$2,516,000 annually—considerably more than the amount sought in this case by the increase in rates. No attempt is made in the record, however, to estimate the amount of this increase in revenues or the effect it will have on net income or rate of return. There is also evidence that a vast number of multi-party-line subscribers are seeking 2-party or single-party service and that they are being accommodated as rapidly as possible; but there is nothing to indicate how much this will increase revenues, although it is bound to be considerable.

Adequate information concerning

expense accounts is also lacking. One of the accounts set up as an operating expense is "Advertising." The company has not seen fit to disclose the amount expended in this account, but the Commission cannot close its eyes to the multicolumn advertisements extolling the virtues and deploring the plight of this company, which have appeared in both the daily and the weekly newspapers, as well as the national magazines, since these rate cases began. It is not necessary to determine the propriety of charging the cost of this extensive advertising to operating expenses, for it may be assumed that these rate cases will not continue to recur every six months and that, consequently, this particular advertising expense will not recur.

Another account is "Directory Expense"; but it is not shown what the amount of this expense was for the eight-months' period nor whether the company published many, few, or no new directories during the period. How can it be said that the amount charged to this account for the period was a normal amount which will recur?

One would assume that in this particular period following the war and the consequent scarcity of labor and materials "Repairs of Pole Lines" would be an unusually heavy expense; but how can this Commission estimate what this account will amount to in the future when it does not know how much it was for the eight-months' period or any past period. It is generally known that expenses for "Station Removals and Changes" are unusually high during a period of expansion, such as this; but the Commission does not know their amount in the

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past and is wholly without information upon which to estimate their amount for the future. The same is true of other expense accounts.

The company keeps fourteen separate income and sixty separate expense accounts of its operations, ranging all the way from "Repairs of Pole Lines" to "Directory Expense." It put into this record some 50,000 words naming and defining these various accounts, but left the record silent as to their respective amounts for the eight-months' or any other period. It is as if the host spent the entire day expatiating on menus and recipes without ever producing a morsel of food. Can this Commission say that the amount of expenditures in each of these items is reasonable without knowing the amount, or that it will remain static in the future when it is common knowledge that many if not most of them fluctuate greatly from year to year?

Even if the average net investment of \$32,327,915 is the correct rate base for the eight-months' period ending March 31, 1948, what is the correct amount today, and what will it be a year from now, with nearly a million dollars a month being added to plant, but with a wholly undisclosed amount of plant being retired simultaneously?

Even if the total operating revenues for the same period amounted to \$11,827,288, who can say what they will amount to for the calendar year of 1948 or of 1949, with nothing in the record to show how much additional revenue will arise from 36,000 additional subscribers being added annually and thousands of others being reclassified to a better class of service and a higher rate?

Even if operating expenses for the period amounted to a total of \$10,677,250 (when adjusted for taxes and services), who can say what their amount will be in the future unless it is known whether these are recurring expenditures and how much they will be reduced by the constant conversion of exchanges to dial operation and the amount of the consequent reduction in expenses incident to operators' wages and the like?

The adjusted operating statement for the eight-months' period reflects annual earnings of 5.34 per cent on the net investment or 5.50 per cent on the capital investment, and the evidence indicates that this will increase in the immediate future; but there is nothing in the record upon which the amount of the increase can be predicated with anything approaching definitude.

Considering the paucity of pertinent information in this record, the problem of adjudicating the reasonableness of the proposed rate structure for the future is one the Commission cannot approach with alacrity.

The problem is complicated, moreover, because this Commission has jurisdiction over local exchange and intrastate toll rates, while the Federal Communications Commission has jurisdiction over interstate toll rates. It is necessary, therefore, to break down all of the accounts into two sets of corresponding figures—one for intrastate, the other for interstate. This the company has purported to do in accordance with rules laid down in a separations manual prepared by a committee of engineers, accountants, and others. Neither this manual nor the rules it promulgates, however, have been approved by the Federal Com-

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munications Commission, or, so far as is shown, by any state Commission or court; and it is so obviously erroneous and so diametrically opposed to the fundamental principles of rate-making advanced in this case by the company's own rate engineer as to but inject confusion where clarity is needed most.

The problem of separating the plant accounts of a telephone system so as to segregate the value of that portion of the plant used for toll service from that portion used for local exchange service, and a corresponding separation and allocation of revenues and of expenditures for depreciation, maintenance, and taxes is an old one which has been bandied about by telephone engineers and accountants for a great many years. Their only reward has been that intellectual thrill which comes from mental gymnastics; for the very nature of the Bell Telephone System defies a scientific solution of the problem. The local exchange service could very well exist without toll service, but the very existence of the toll service depends upon its connection with and utilization of the local exchange plant including subscriber-connecting facilities. It is like trying to separate the value of one's legs and the value of the rest of the body. The rest of the body would have a value, perhaps, with the legs missing; but a pair of legs without the body would be valueless. The same is true of this telephone system. The local exchange plant without toll-circuit connections has a value; but the toll circuits without the local exchange plant would be without service value.

[19] Those making this separations study proceeded upon the theory

that the total value of plant used in common for both toll and local services—such as the telephone instrument on the subscriber's desk and the circuit connecting it to the local switchboard—as well as the expenses of maintenance, depreciation, and ad valorem taxes incident thereto, should be allocated to each respective service in proportion to the time they are "in use" for toll service and for local service respectively. Again, that is like separating the value of one's legs and the value of the rest of the body by using the avoirdupois of each and the time each is used. It is nothing short of absurdity. Such a formula might be of some significance if all of the property were in use all of the time—although nobody would want a telephone if the line were always busy. However, the average telephone is used only about two minutes per day for toll service and only about twenty-three minutes per day for local service. During the other twenty-three hours and thirty-five minutes—more than 98 per cent of the time—it is idle. Though not in actual use, depreciation, maintenance expenses, and ad valorem taxes accrue just the same, and the telephone has a standby value to the subscriber. To ignore this standby value and to allocate these constantly accruing expenses between the classes of services solely upon the basis of actual use is as if one should say that the fire department is of value only to those whose houses are on fire and that the cost of maintaining it should be borne by those who call it out in proportion to the number of hours they use it respectively. Obviously, a sounder method must be found.

[20] Such a method is suggested



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by the approach of the company's chief rate-engineer to the problem of allocating rates generally. In fixing the differentials among classes of service, such as business and residence, private and party lines, and local and intrastate toll service, the company, in so far as practical, bases them upon the differences in the value of these respective classes of service to its subscribers. If rates are predicated upon this basis—value of service—it seems that expenses incurred incident to the common use of plant by various classes of service could be allocated equitably upon a similar basis. Likewise, would it not be equitable to separate accounts pertaining to plant used in common by allocating them upon the same basis—value of service rendered by each respective class?

Assuming that interstate toll rates were on a level with intrastate toll rates, the relation of local service revenues, interstate toll revenues, and intrastate toll revenues in Kentucky would be as follows:

Local Service Revenues .....	61%
Intrastate Toll Revenues .....	19%
Interstate Toll Revenues .....	20%

While not conclusive this is probably the best indication of the over-all value of these respective classes of service to the public. If these percentages are inequitable, there is nothing in the record to indicate it; and as long as they prevail, there appears to be no valid reason why the expenses for depreciation, maintenance, and taxes which accrue against the common plant during the more than 98 per cent of the time it is idle and has only a standby value should not be charged against the revenues of these

various classes of service in the above proportion.

[21] Because of the closely integrated and interdependent nature of the Bell Telephone System, its plant accounts, in so far as applicable to plant common to both local and toll services, should be allocated among the respective classes of service upon some similar basis.

This record does not disclose sufficient data upon which to make a separation study; but it is obvious from the record that such a study based upon sound principles of allocation would greatly reduce the intrastate rate base advanced herein as well as the intrastate operating expenses claimed by the company. The result would almost certainly show intrastate earnings on the corresponding capital investment of not less than the over-all rate of 5.50 per cent in Kentucky, and they might exceed this figure considerably.

[22] The burden is upon the company to make and present such a study based upon sound and equitable principles of separation and allocation. It is no excuse to say that the company has used this old method for many years, whereby intrastate rates are made to subsidize interstate rates. Especially is this true since it has been done without the sanction of either the Federal or the state Commissions. That but makes the correction of this inequitable practice all the more seasonable.

[23, 24] Finally, the company pleads that unless the rate increase is granted its credit may be impaired and that it may be unable to attract necessary new capital upon reasonable terms. It is stated that the company's credit is dependent upon the credit of

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the Bell System; and it appears that the company was able in 1947 to sell bonds amounting to \$75,000,000 to cost it 2.82 per cent annually, and that the Bell System was able in 1946 and 1947 to raise more than 1½ billion dollars upon similarly advantageous terms. Nearly half of this amount consisted of 2.75 per cent convertible debentures; and on the very day and in the same newspapers that notice of this rate increase was given these debentures with a par value of \$100 were quoted at \$114. It is true that they were attractive because they could be converted to common stock upon the payment of \$40 per share. This represented a total investment, however, of \$154 for a share of stock with a book value of \$135 or less, and indicates how avidly the investing public sought this stock.

The company undertakes to show that in order to maintain its credit it should be permitted to earn (1) 2.82 per cent per annum on its debt capital, which it places at 35.84 per cent of its entire capital structure; (2) 9 per cent on its equity capital; and (3) 6.79 per cent on its allocable portion of the funds held available by the parent company for subsidiaries; and to meet these requirements it derives a formula from the twelve-months' period ending March 31, 1947, applies it to its operating structure for the eight months under consideration, and derives a demand for an annual return of 6.66 per cent on its net investment as of March 31, 1948. In its premises, its derivation, and its application, however, the formula is fraught with fallacy.

In the first place, it is acclaimed throughout the record that the credit

of the company is inseparably tied up with and dependent upon the credit of the Bell system. If that be true, the bond money factor for the formula must include not only the 35.84 per cent of company debt capital but also the bond money of the parent company which supports another 17.64 per cent of this subsidiary's capital. This makes a total of 53.48 per cent of the company's capital structure which is directly supported by debt money costing but 2.82 per cent per annum.

In the second place, the Bell System has been able to establish and maintain an enviable credit record during the past twenty-five years with average annual equity earnings of 7.63 per cent. During that period the average cost of bond money has been upwards of 4 per cent, yet the parent company has never failed to pay its 9 per cent dividend each year. With bond money now costing only 2.82 per cent, the Commission perceives no credit peril which demands 9 per cent equity earnings and consequent dividends of 12 per cent.

In the third place, the company's allocable portion of the funds held available by the parent company is no part of this company's capital structure. As an operating expense this company pays one per cent of its gross operating revenues to the parent company as compensation for holding these funds available and for certain other services. Not unless the funds are actually advanced to the company and actually used by it in its telephone operations do they become a part of its operating capital. Even then they are but temporary loans and only the actual interest cost to the company enters into earnings requirements. There

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is no evidence to indicate what amount of these funds, if any, were so advanced and so used during the period upon which the formula is predicated.

Finally, it is observed that between the period of operations wherefrom this formula is devised and the date to which it is applied the debt ratio of the company rose by perhaps 10 per cent over that considered herein.

Calculation of earnings requirements is no complicated process. During the eight-months' period under study the average capital investment applicable to the company's combined operations in Kentucky appears to have been \$31,373,232, after deductions on account of construction work in progress and cash requirements. If 53.48 per cent of this amount—\$18,878,404—was bond money costing 2.82 per cent, then the annual earnings requirement on this account was \$475,971. If the balance of the capital—\$14,494,828—is permitted to earn 7.63 per cent, which is the average rate of annual earnings on equity capital in the Bell System during the past quarter of a century, then the annual earnings requirement on this account was \$1,105,955. These annual requirements total \$1,581,926. Operating revenues for the eight-months' period under consideration, when adjusted to eliminate the differential in favor of interstate tolls, meet these earnings requirements and leave \$143,161 for an annual surplus.

It thus appears that if the earnings resulting from the intrastate rates heretofore in effect are realized throughout the Bell System, the parent company can continue to meet its debt demands, pay its 9 per cent divi-

dends, and greatly augment its surplus.

Even if only half of the capital employed in combined operations in Kentucky during the eight-months' period was bond money, the annual net operating income of \$1,725,087 actually characteristic of that period under the old intrastate rates would pay the premium on it and leave earnings of 8.18 per cent for the equity capital. If the common stock has a book value of \$135, this would enable the company to pay a dividend of 11 per cent. This exceeds the 7.79 per cent equity earnings and the 9 per cent dividends which have supported the Bell System credit for more than a quarter of a century. There is no evidence that it is inadequate now.

It is natural for the management and the investment banker to yearn for 7 per cent net earnings, 11 per cent on equity, lush dividends and a soaring surplus; but one of the functions of this Commission is to guard the public against such appetite. There is absolutely nothing in this record, in so far as intrastate rates are concerned, to indicate tottering credit. Such a contention is as hollow as the other premises upon which the rate increase is predicated.

This record purports to show the company's operating results for only an eight-months' period ending March 31, 1948, without attempting to show the relation of its rate base, its operating income or its operating expenses for that period to past results or future prospects. Upon the inadequate data submitted for this period, when the discriminating differential in favor of interstate tolls is eliminated, earnings of at least 5.34 per cent

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per annum on its net investment or 5.50 per cent on its capital investment are shown; and the record indicates that this rate will probably increase substantially in the immediate future. Considering the brevity of the period and the abnormal conditions which characterize it, can the Commission say that such a rate of return is so inadequate as to warrant this increase in rates—an increase which would raise the return on capital investment to 9 per cent? It is admitted that intrastate tolls are already 37 per cent higher than interstate tolls, and this increase would increase the disparity to 54 per cent. The company undertakes to separate intrastate and interstate business by bookkeeping procedures of allocation which are plainly unreasonable, inequitable, and unsound. As a result, intrastate rates are made to

subsidize interstate operations. It pleads its credit prospects when it is able to obtain bond money at an annual cost of well under 3 per cent and when the common stock of its parent company, with a book value of approximately \$135, is selling on the market at well over \$150.

In the face of such a showing, the company having concluded its evidence in chief, it is wholly improper to prolong these hearings during another 120-day period of suspension while the public continues to pay the increased rates. Upon the company's own evidence the increase should be denied and the company required to refund the excess collected since the original order of suspension herein.

An order in conformity with this opinion may be entered.

### PENNSYLVANIA PUBLIC UTILITY COMMISSION

## Pennsylvania Public Utility Commission

v.

## Pennsylvania Water & Power Company et al.

Complaint Docket No. 14028

September 27, 1948

**M**OTION to dismiss state Commission investigation of rates of electric company furnishing intrastate and interstate service, for want of jurisdiction; motion denied; order extending time to file tariffs entered October 18, 1948.

*Interstate commerce, § 1 — Conflicting Federal and state powers.*

1. A sovereign state need not appear before a Federal administrative agency to determine whether its law or a related Federal law governs a given situation, p. 51.

## PENNSYLVANIA PUBLIC UTILITY COMMISSION

*Commissions, § 23 — State and Federal powers — Effect of Federal interpretation of state statutes.*

2. A decision of a Federal administrative agency in interpreting a state statute is not binding upon the state, p. 51.

*Interstate commerce, § 5 — Conflicting Federal and state powers.*

3. The Federal Power Commission cannot, by its mere assertion, oust the state Commission of jurisdiction over an intrastate electric company, p. 51.

By the COMMISSION: The Commission on December 5, 1944, instituted an inquiry and investigation into the rates of Pennsylvania Water & Power Company (PW&P) at Complaint Docket No. 14028. Hearings were held in that proceeding and testimony was taken which indicated a coördinated operation and rendering of joint services by PW&P and Safe Harbor Water Power Corporation (SHWP) to their several customers.

Thereafter, on October 6, 1947, the Commission issued an inquiry and investigation into the rates of SHWP and joined SHWP as a respondent at Complaint Docket No. 14028. Hearing was held November 6, 1947, to give SHWP an opportunity to be heard. At the hearing on November 6, 1947, the president of SHWP appeared and recited the division of voting control between PW&P and Consolidated Gas Electric Light and Power Company of Baltimore (Baltimore Company), and stated that the board of directors of SHWP consisted of ten members, five of whom were nominees of PW&P and five nominees of Baltimore Company, and that irreconcilable differences between the two parent companies made it impossible for SHWP to take any affirmative action at that time.

At said hearing Baltimore Company filed a petition to intervene as a stockholder of SHWP and presented

therewith, conditional upon allowance of such intervention, a motion to dismiss the proceedings as to SHWP for want of jurisdiction. By order of May 25, 1948, 74 PUR NS 159, the Commission permitted Baltimore Company to intervene for the sole purpose of questioning this Commission's jurisdiction and fixed July 16, 1948, for filing of briefs and oral argument. At said oral argument, counsel for PW&P appeared in opposition to the motion to dismiss. Thus, the matter is now before the Commission on the question of our jurisdiction over the rates and charges of SHWP.

Baltimore Company's motion to dismiss is based upon two principal arguments.

1. The Federal Power Commission instituted its own proceeding against the rates and charges of SHWP on September 1, 1944, and, on November 4, 1946, issued its order reducing said rates and charges. SHWP has presently pending an appeal from said order taken to the circuit court of appeals of the United States for the third circuit, which appeal has not been heard or disposed of, and the FPC order is presently in full force and effect.

2. The exercise by the FPC of jurisdiction over the rates and charges of SHWP excludes any state regulatory power or jurisdiction thereover so long as the exercise of such juris-



PUBLIC UTILITY COM. v. PENNSYLVANIA WATER & P. CO.

dition by the FPC is in full force and effect, and the courts of Pennsylvania and a fortiori the Public Utility Commission have no power to review such FPC action either directly or collaterally.

In support of these contentions, Baltimore Company's brief contains references to various cases, which, in our opinion, do not control the present situation.

[1, 2] We do not believe that a sovereign state must appear before a Federal administrative agency to determine whether its law or a related Federal law governs a given situation. Nor can the decision of a Federal administrative agency in interpreting a state statute be considered binding upon the state. We feel that these principles of law are basic and founded in the long-established division of powers between state and Federal governments.

[3] We have asserted jurisdiction over the rates of SHWP and PW&P according to the powers and duties imposed upon us by the Pennsylvania Public Utility Law. The field in which we have acted is intrastate commerce, and the FPC cannot, by its mere assertion, oust our jurisdiction. The Federal Power Act does not confer such jurisdiction upon the FPC, and it would be unconstitutional if it did so. We are of the opinion that the attempt of the FPC to exercise jurisdiction over SHWP does not deprive this Commission of its jurisdiction, nor does it prevent us from exercising jurisdiction over the rates and charges of SHWP in our own proceeding.

SHWP was created under the laws of the commonwealth of Pennsylvania.

On February 11, 1929, at Application Docket No. 17675, the Pennsylvania Public Service Commission issued a certificate of public convenience approving the incorporation, organization, and creation of Safe Harbor Water Power Company for the purpose of supplying, storing, and transporting water and water power for commercial and manufacturing purposes in the township of Manor, Lancaster county, Pennsylvania. On December 23, 1929, the Commission issued a certificate of public convenience at Application Docket No. 21579, approving the consolidation and merger of Safe Harbor Water Power Company and Chanceford Water Power Corporation, forming a new corporation to be known as Safe Harbor Water Power Corporation.

Following the issuance of the aforementioned certificate of public convenience, SHWP was granted authority by the Public Service Commission to acquire land located in York and Lancaster counties, Pennsylvania, by eminent domain proceedings, in some 49 separate cases.

Subsequently, the Public Service Commission approved several transactions involving the sale of real estate owned by SHWP to various parties, and the Public Service Commission, further, gave permission to SHWP to keep its books, records, and accounts in its office in Baltimore, Maryland. SHWP has filed annual reports with this Commission and its predecessor, the Public Service Commission, continuously since the year 1930. It has paid annual assessments, commencing from the time said assessments were first begun by the Public Utility Commission in 1937.

## PENNSYLVANIA PUBLIC UTILITY COMMISSION

It has kept its tariffs on file in accordance with Commission rules. As a certificated public utility, SHWP has complied with the various rules and regulations of the Commission with respect to its rates and charges and the filing of various reports, tariffs and other data required from time to time.

SHWP owns and operates a hydroelectric power development at Safe Harbor, Pennsylvania, on the Susquehanna river. It is solely a hydroelectric development, having a presently rated capacity of 230,000 kilowatts. Its plant is electrically connected only to the primary interconnected transmission system of PW&P at Safe Harbor. SHWP's stock has been owned only by PW&P and Baltimore Company, with 50 per cent of the voting stock being owned by each of said companies.

From a review of the facts on record, it is apparent that SHWP is a Pennsylvania corporation with all of its facilities in Pennsylvania, filing tariffs with this Commission, and rendering electric services in Pennsylvania. Furthermore, it is clear that the electric services of SHWP rendered to Pennsylvania customers for resale in Pennsylvania and directly to the Pennsylvania Railroad Company in Pennsylvania is intrastate com-

merce. Although SHWP admittedly does interstate as well as intrastate business, the two types of service are readily separable for the purposes of regulation. Ample evidence appears of record for us to make such separation.

The record discloses an integrated and coordinated system operated by PW&P and SHWP, and since these unified operations result in intrastate commerce in Pennsylvania this Commission is bound to exercise jurisdiction over such intrastate activities.

From its inception, SHWP has been subject to the jurisdiction of this Commission as fully and completely as could be possible under any circumstances. Any attempted exercise of jurisdiction by any other agency, whether state or Federal, over the rates and charges of SHWP could have no effect to oust the jurisdiction of this Commission. The rates and charges for the output of electrical energy sold in Pennsylvania by SHWP are subject to our jurisdiction.

After consideration of the motion of Baltimore Company to dismiss the proceedings as to Safe Harbor Water Power Corporation, we are of the opinion that the said motion should be denied.

WISCONSIN PUBLIC SERVICE COMMISSION

Re Wisconsin Electric Power Company

2-U-2633

October 14, 1948

**A**PPPLICATION of electric company for certification of depreciation rates; depreciation rates certified.

*Depreciation, § 32 — Straight-line method — Disapproval of sinking-fund method.*

1. Depreciation rates, certified by the Commission as required by statute, should be determined on a straight-line basis when a  $3\frac{1}{2}$  per cent sinking-fund method may not reasonably be employed in view of the experience of the company in accumulating a reserve under rates previously certified, it appearing that there has been a serious and continuing disagreement as to actual earnings on depreciation reservations, that the company has given no effect in operating income to actual earnings on reservations in excess of the theoretical  $3\frac{1}{2}$  per cent, and that the company has assumed that substantial parts of depreciation reservations on electric property were invested in transportation property which has lower earnings than electric investment, p. 56.

*Depreciation, § 16 — Depreciable property — Land and land rights — Easements.*

2. The uniform system of accounts classifies land and land rights as not depreciable plant, and no depreciation accruals thereon are authorized; and, accordingly, no depreciation for land and land rights accounts, transmission clearing land and rights of way, and distribution line easements can be certified, p. 57.

*Depreciation, § 32 — Sinking-fund method.*

Description of the sinking-fund method of depreciation accounting, p. 54.

*Depreciation, § 34 — Reserve on sinking-fund basis — Income — Rate base.*

Statement that a corollary of the sinking-fund method of depreciation is that the annuity only may be included in operating expenses and that the interest accretions to the reserve be treated as an income deduction and no accrued depreciation be deducted from property for rate base purposes, p. 54.

*Depreciation, § 50 — Electric utility — Schedule of rates certified.*

Schedule of depreciation rates certified by Wisconsin Commission for electric utility, showing service life, net salvage, and depreciation rates, p. 59.

By the COMMISSION: Wisconsin Electric Power Company, on February 16, 1948, filed estimates of annual depreciation rates for its various classes of depreciable utility plant, as required by general order of the Commission dated August 28, 1946, 2-U-

2228, for certification pursuant to § 196.09, Wisconsin Statutes.

The rates filed by the company were calculated on the  $3\frac{1}{2}$  per cent sinking-fund basis. Under this method an annuity is established, which, together with compound interest on the annui-

## WISCONSIN PUBLIC SERVICE COMMISSION

ties at the specified rate, will accumulate a depreciation reserve equal to the cost less net salvage of the depreciable property at the end of its service life. A corollary of the sinking-fund method is that the annuity only be included in operating expenses, the interest accretions to the reserve be treated as an income deduction, and no accrued depreciation be deducted from property for rate base purposes.

Subsections (5), (6), and (7) of § 196.09 state:

(5) "When the Commission shall have established, by certification or order, the reasonable and proper percentages of depreciation, such percentages shall constitute the percentages to be used in any proceeding involving the rates or practices of such public utility, provided that if at the time of such proceeding it is found that the percentages of depreciation previously established are no longer reasonable and proper the Commission shall establish reasonable and proper percentages for the purpose of such proceeding and certify such new percentages in the manner provided by this section.

(6) "When the Commission shall have established for any public utility, by certification or order, the percentages necessary for depreciation on fixed capital used for public utility purposes, such public utility shall credit to its depreciation reserve in each accounting period such amount as may be required to provide for depreciation at the percentage or percentages established. If the public utility is a corporation, it shall be unlawful for such corporation to pay any dividend out of earnings for any fiscal period subsequent to the Commission's certification or order, or carry any portion

of its earnings to its surplus account, except out of earnings remaining after crediting its depreciation reserve in accordance with the rates established by the Commission; provided, that after application and hearing the Commission may, upon a finding that it is necessary in the public interest, exempt a public utility from the duty of crediting to the depreciation reserve in any accounting period a greater amount than is possible without impairing its ability to pay dividends for the current calendar year. Nothing in this section shall be construed to modify the requirements of § 182.19.

(7) "If a public utility desires to account for depreciation on a sinking-fund basis and the Commission determines that such basis of accounting for depreciation may reasonably be employed, the Commission shall establish, in the manner hereinbefore referred to, the composite rate to be applied to the aggregate fixed capital used for public utility purposes to determine the amount which shall be charged to operating expenses, and the interest rate applicable to the reserve balance at which additional credits to the reserve shall be computed. In such cases the total amount to be credited to the reserve shall be the amount charged to operating expenses, plus the amount obtained by applying the interest rate to the reserve balance. Public utilities which account for depreciation on a sinking-fund basis shall be subject to the same restrictions and regulations in their accounting for the entire amounts to be credited to the depreciation reserve as are applicable to those public utilities which make the entire provision for depreciation by other methods permitted herein."

## RE WISCONSIN ELECTRIC POWER CO.

The above-quoted statutes make it clear that depreciation rates certified by the Commission must be used by the Commission in determining reasonable charges to customers for utility service and must be used by the utility for accounting and financial purposes, including the charging of depreciation expense at the certified rates before determining income available for dividends. Any depreciation rates certified on a sinking-fund basis as referred to in subsection 7 of § 196.09 must be reasonable rates for all purposes set forth in subsections (5) and (7).

In the Commission's order dated August 17, 1940, Dockets 2-U-1210 and 1216, 35 PUR NS 287, 291, 292, certifying depreciation rates for the company, it was stated:

"The true conception of the sinking-fund method is that an annuity be established which, together with the compound interest earnings on the reservations, shall accumulate a sum sufficient to equal the loss on retirement of the property. In accordance with this principle, in theory at least, the actual rate of interest earnings should be given effect in the sinking-fund formula. Practically, this is difficult and may be undesirable in the long run. The actual earnings on depreciation reservations cannot be forecast precisely and it is difficult to adapt a fluctuating rate of interest to the sinking-fund formula. Further, if the interest rate be fixed too high, the depreciation reserve may accumulate at too slow a rate. Also, a high interest rate used in a sinking-fund formula postpones the heaviest depreciation charges, annuity, and interest, to the last year's life of the property, con-

cerning which depreciation estimates are most unreliable and when net income obtained from the property may be at its lowest point.

"Unquestionably, however, the actual earnings on depreciation reservations must be considered in passing on rates for utility service. If depreciation is recovered from the customers of the utility through the sinking-fund method, it is only just that the actual earnings on depreciation reservations be recognized in determining the amount of depreciation to be borne by the customer or the return which he must pay on a proper rate base. Unless these earnings are considered and the customer's interest protected by giving the earnings their due weight in fixing rates for utility service, the utility gains by the difference between the actual earnings on depreciation reservations and the  $3\frac{1}{2}$  per cent sinking-fund interest rate.

"There are various ways in which the customer's interest can be preserved. One method is to set the sinking-fund interest rate high enough to at least reasonably approximate the actual return on depreciation reservations. A second method is to include both the annuity and the interest in depreciation expense and to deduct the depreciation reserve in computing a book rate base. A third method is to credit operating income used for return purposes with the earnings on depreciation reservations in excess of the  $3\frac{1}{2}$  per cent interest rate and to calculate the returns on an undepreciated rate base."

The order of August 17, 1940, *supra*, certified depreciation rates on a  $3\frac{1}{2}$  per cent sinking-fund basis subject to the condition that the company



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should submit in the annual report to the Commission the actual earnings on depreciation reservations and the excess of such earnings over theoretical earnings computed at the  $3\frac{1}{2}$  per cent interest rate used in the sinking-fund formula. The purpose of this condition was to make available to the Commission full information concerning the earnings on depreciation reservations for all proper purposes in a proceeding involving the rates, rules, or practices of the company.

[1] Experience with the depreciation practices of the company under the order of August 17, 1940, *supra*, has amply demonstrated that the  $3\frac{1}{2}$  per cent sinking-fund method of accounting for depreciation may not reasonably be employed since there has been a serious and continuing disagreement between the company and the Commission as to the actual earnings on depreciation reservations. In subsequent cases involving utility rates, the company has taken the position that annual depreciation expense should be computed on a  $3\frac{1}{2}$  per cent sinking-fund basis and that no accrued depreciation should be deducted in ascertaining a rate base. It has given no effect in operating income to actual earnings on depreciation reservations in excess of the theoretical  $3\frac{1}{2}$  per cent. Further, in estimating actual earnings on depreciation reservations as required by the Commission's previous certification of depreciation rates, the company has assumed that substantial parts of depreciation reservations on electric property were invested in transportation property. Since the earnings on transportation investment have been much lower than the earnings on electric investment, this pro-

cedure resulted in showing substantially lower earnings on electric depreciation reservations and in large measure invalidating the results for rate-making purposes.

It is to be noted also that the company has been accruing depreciation as a percentage of revenue although the certification of August 17, 1940, *supra*, provided for percentage rates to be applied to plant investment. This procedure and the effect thereof is set forth in a note to the financial statements of the company included in its annual report to stockholders for the year 1947, stating as follows:

"The company and its subsidiaries consolidated (Wisconsin Gas & Electric Company and Wisconsin Michigan Power Company) make provision for depreciation at percentages (substantially the same for 1947 and 1946) of operating revenues together with amounts of interest at the rate of  $3\frac{1}{2}$  per cent per annum calculated on the balances in the depreciation reserves for utility plant. For the company and subsidiaries consolidated, the provisions determined as a percentage of operating revenues were in excess of the requirements determined by the application of the depreciation rates computed on a  $3\frac{1}{2}$  per cent sinking fund method to various classes of property, which rates were certified to the company and subsidiaries consolidated by the regulatory Commission of Wisconsin. For the company, such excess amounts for the years 1947 and 1946 were approximately \$295,000 and \$55,000, respectively. For the company and subsidiaries consolidated, such excess amounts for the years 1947 and 1946 were approxi-

## RE WISCONSIN ELECTRIC POWER CO.

mately \$468,000 and \$286,000, respectively."

Thus, the company has not, in fact, been accruing depreciation on a sinking-fund basis and has made larger provisions for depreciation expense than the amount indicated by the depreciation rates previously certified. Compounding of interest on the excess provisions would increase the future annual charges for depreciation and make the total excess in the depreciation reserve progressively larger.

It is to be noted also that the total annual depreciation charge, under the proposed rates applied to property investment as of December 31, 1947, is about \$250,000 less than under the rates previously certified on August 17, 1940. Thus, experience has demonstrated that the previous depreciation rates resulted in too high accruals for annual depreciation expense. Use of an interest method of depreciation accounting would compound interest on the amount of these excesses.

Consideration being given to the experience of the company in accumulating a depreciation reserve under the depreciation rates previously certified, the Commission is of the opinion that a 3½ per cent sinking-fund method may not reasonably be employed in accounting for depreciation of its property. Accordingly, the depreciation rates certified herein will be determined on a straight-line basis as have all certifications issued since the general order in 2-U-2228.

[2] The application of the company requests certification of depreciation rates for transmission land and land rights, transmission clearing land and rights of way, and distribution line easements. Depreciation rates for

these classes of plant are requested because the investment in easements is only of use as long as the lines are located thereon and in event of abandonment of the line becomes valueless. Similarly, right of way which is owned has a very small residual value. For these reasons, the company proposes that the investment should be charged to expense over a reasonable period of time.

The provisions of the uniform systems of accounts prescribed for electric, gas, and water utilities classify land and land rights as nondepreciable plant and no depreciation accruals thereon are authorized. Accordingly, no depreciation rate for land and land rights accounts, as requested by the company, will be certified herein. This action is without prejudice to any application for amendment of the provisions of the systems of accounts which the company may desire to present before the Commission whereby the classification of land and land rights as depreciable or nondepreciable might be determined for all utilities subject to the provisions of § 196.09.

The service life and net salvage estimates in the company's depreciation study filed in the proceeding have been reviewed by the Commission's staff although no check has been made of the working papers and other details underlying the estimates. Based on this general review, the staff is of the opinion that the service life and net salvage estimates as proposed by the company are within the zone of reasonableness. Accordingly, we believe the statutory findings may be made and depreciation rates certified based on such estimates.

Attention is directed to the fact that

## WISCONSIN PUBLIC SERVICE COMMISSION

for certain accounts the composite service life shown in the company's depreciation study was derived from the composite of the  $3\frac{1}{2}$  per cent sinking-fund annuity rates applied to the components of the account. Direct proportional weighting under the straight-line method would result in slightly different composite lives for these accounts. The difference appears to be insignificant, however, and no changes are being made in the estimated lives shown in the company's study, other than to round off the figures to the nearest whole year. However, if the company desires to revise the details underlying calculation of composite lives to reflect direct proportional weighting, an application for appropriate changes in any of the composite service lives shown herein will be favorably received.

As provided by § 196.09, Statutes, the company has thirty days after the certification herein to make application for a hearing and order and, if such application is not filed within the time period provided, the Commission's certification of findings shall have the effect of an order.

The Commission finds:

That the depreciation rates computed on a straight-line basis as set forth in the schedule annexed hereto and made a part hereof are reasonable and proper for use in accounting for depreciation in accordance with the provisions of § 196.09, Wisconsin Statutes.

### *Certification*

Now, therefore, the Public Service Commission of Wisconsin, pursuant to the provisions of § 196.09, Wisconsin Statutes, hereby certifies to Wisconsin Electric Power Company the annual depreciation rate for each class of its utility plant as set forth in the schedule hereto annexed and made a part hereof until further order or certification as provided by Statute. The depreciation rates herein certified may be made effective as of January 1, 1948. The amount of annual depreciation expense under said rates shall be determined by applying said rates to the appropriate balance of the various plant accounts and no other basis of applying said rates is authorized.

# RE WISCONSIN ELECTRIC POWER CO.

## WISCONSIN ELECTRIC POWER COMPANY

2-U-2633

### Schedule of Depreciation Rates

Acct. No.	Class of Plant	Service Life (years) (a)	Net Salvage (%) (b)	Deprecia- tion Rate (%) (c)
<i>Electric Utility</i>				
Steam production plant:				
311	Structures and improvements .....	68	(9.25)	1.6
312	Boiler plant equipment .....	34	2.0	2.9
313	Engines and engine-driven generators .....	33	—	3.0
314	Turbogenerator units .....	35	—	2.9
315	Accessory electric equipment .....	30	3.0	3.2
316	Miscellaneous power plant equipment .....	28	6.0	3.4
Transmission plant:				
342	Structures and improvements .....	45	(4.0)	2.3
343	Station equipment .....	30	4.0	3.2
344	Towers and fixtures .....	60	—	1.7
345	Poles and fixtures .....	30	20.0	2.7
346	Overhead conductors and devices .....	40	25.0	1.9
348	Underground conductors and devices .....	30	10.0	3.0
Distribution plant:				
351	Structures and improvements .....	42	(7.2)	2.6
352	Station equipment .....	30	2.0	3.3
354	Poles, towers and fixtures .....	30	(20.0)	4.0
355	Overhead conductors and devices .....	40	20.0	2.0
356	Underground conduit .....	54	—	1.9
357	Underground conductors and devices .....	35	15.0	2.4
358	Line transformers .....	30	3.0	3.2
359	Services .....	30	9.0	3.0
360	Meters .....	30	4.0	3.2
362	Leased property on customers' premises .....	30	—	3.3
363	Street lighting and signal systems .....	25	5.0	3.8
General plant:				
371	Structures and improvements .....	53	(6.2)	2.0
372	Office furniture and equipment .....	22	8.0	4.2
374	Stores equipment .....	24	—	4.2
375	Shop equipment .....	24	10.0	3.8
376	Laboratory equipment .....	26	—	3.8
377	Tools and work equipment .....	19	10.0	4.7
378	Communications equipment .....	24	—	4.2
379	Miscellaneous equipment .....	15	—	6.3

# WISCONSIN PUBLIC SERVICE COMMISSION

## WISCONSIN ELECTRIC POWER COMPANY

2-U-2633

### Schedule of Depreciation Rates

Acct. No.	Class of Plant	Service Life (years) (a)	Net Salvage (%) (b)	Deprecia- tion Rate (%) (c)
	<i>Heating Utility</i>			
	Steam production plant:			
	Structures and improvements .....	73	(8.0)	1.5
	Boiler plant equipment .....	28	(6.0)	3.8
	Miscellaneous power plant equipment .....	41	(10.0)	2.7
	Distribution plant:			
	Mains .....	46	—	2.2
	Services .....	35	—	2.9
	Customers' meters .....	40	—	2.5
	Other tangible property .....	40	—	2.5
	General plant:			
	Laboratory equipment .....	10	—	10.0
	Tools and work equipment .....	20	10.0	4.5
	<i>Utility Plant Leased to Others</i>			
	Composite based on total depreciable plant leased ....	44	—	2.3

Note: No depreciation rate is certified for transportation equipment and depreciation may be charged on this class of plant on a unit basis or such other procedure as will distribute the cost equitably.



MICHIGAN PUBLIC SERVICE COMMISSION

Re Michigan Consolidated Gas Company

D-3000 48.4

October 14, 1948; rehearing denied November 12, 1948

**R**EHEARING in proceeding relating to curtailment of natural gas service to certain industrial customers during shortage of supply; upon finding of fundamentally different facts, reinstatement of service ordered and amendment of curtailment rule ordered. For earlier decision, see (1948) 74 PUR NS 406. For order denying interim relief, see (1948) 75 PUR NS 159.

*Discrimination, § 205 — Curtailment of service — Integrated gas system.*

A rule of a gas company permitting discontinuance of service to industrial customers in one district is discriminatory against such customers when, by reason of the completion of an interconnection between districts, the districts have been integrated into a single natural gas transmission and distribution system and customers of the identical class in another district are not subject to any such rule.

By the COMMISSION: This will supplement and modify findings and order made and entered in this matter January 27, 1948, 74 PUR NS 406, to which reference is hereby made. The pertinent facts and proceedings before this Commission which resulted in that order and subsequent proceedings which have now brought this matter before us for further consideration are, briefly, as follows:

On May 23, 1947, Michigan Consolidated Gas Company, hereinafter referred to as "Consolidated," notified twelve industries in its western district that it would discontinue deliveries of gas to them not later than December 31, 1947, under Rule 18 of its Schedule and Rates for Gas Service which reads in part as follows:

"If the supply of natural gas diminishes to the point where continuous service to other customers is threat-

ened, the company shall have the right to limit or discontinue the use of service for its industrial customers, irrespective of the contracts in force."

On August 20, 1947, two of the twelve affected industries, Nash-Kelvinator Corporation and Michigan Bumper Corporation, filed a petition with this Commission for an investigation of the proposed discontinuance of service; subsequently, others of the affected industries intervened in the proceeding. The purpose of the petition was to obtain an order of this Commission requiring Consolidated to continue service to the twelve industries. On January 27, 1948, *supra*, after full hearing of all parties and argument, this Commission denied the petition and permitted Consolidated to cut off service as of midnight January 31, 1948.

On February 16, 1948, a petition

## MICHIGAN PUBLIC SERVICE COMMISSION

for rehearing and supplemental findings of fact and conclusions of law was filed with this Commission by Nash-Kelvinator Corporation, Michigan Bumper Corporation, Campbell, Wyant & Cannon Foundry Company, Continental Motors Corporation, Lakey Foundry and Machine Company and Norge Division of Borg-Warner Corporation. The city of Grand Rapids joined in such petition.

On July 30, 1948, the above industries again filed with this Commission a petition in the same matter dated July 27, 1948, seeking an immediate hearing for a "temporary" or "interim" order of this Commission directing Consolidated to resume normal service of industrial gas to the petitioners and to others similarly situated until further order of the Commission. This Commission issued an order to show cause setting the matter for hearing August 6, 1948, at which time all petitioners were given an opportunity to be heard. On August 9, 1948, 75 PUR NS 159, this Commission issued its opinion and order denying without prejudice the prayer of the petitioners for a temporary or interim order and ordered that the matter be brought on for hearing on its merits at the earliest available time.

On September 22, 1948, a full hearing was had on the petition of February 16, 1948, and the petition of July 27, 1948. Opportunity was afforded all interested parties to present evidence and argument in support of their respective petitions. Counsel agreed to the incorporation in the record by reference of certain facts established by other proceedings of record.

The facts presently before the Commission

in the instant proceeding are fundamentally different in several essential respects from those facts which were before the Commission and upon which the findings and order of January 27, 1948, *supra*, was based. The Commission in that order denying the prayer of petitioners stated: "In reaching this conclusion" (to deny the relief sought) this Commission is mindful of certain facts and conditions which relate to the natural gas industry and to the welfare of the people of Michigan as a whole: . . . .

"V. The so called Austin pipe line, designed to connect the Austin storage field with Panhandle facilities, is not constructed and may not be completed as scheduled for April of 1948." (74 PUR NS at p. 421.)

The Austin-Detroit pipe line which was under construction at the time the order of January 27, 1948, *supra*, was issued was in fact completed on May 12, 1948. Gas began to flow through the line for storage in the Austin Field in substantial quantities on May 15, 1948. Prior to the completion of this line, there was no physical connection between the Western District and the Eastern District of Consolidated. The physical completion of this line linked the Districts and effected physical integration of Consolidated's system with complete interconnection throughout its natural gas system except for Ann Arbor.

The order further stated

"VI. Any withdrawals from the Austin storage field for customers of Consolidated . . . which might jeopardize the use of those fields for storage purposes, would defeat the future stabilization of the whole natural

## RE MICHIGAN CONSOLIDATED GAS CO.

gas industry in this state." (74 PUR NS at p. 421.)

The completion of the Austin-Detroit line has eliminated the concern of the Commission at the time of its January 27, 1948, *supra*, order that excessive withdrawals from the Austin Field for industrial or other customers of Consolidated might jeopardize the use of that field for future storage purposes even before completion of the Austin-Detroit line permitting some replenishment of the field.

"VII. The legality of diverting Panhandle gas from the Austin Field to other than the Detroit District of the Michigan Consolidated Company has not been determined and cannot be determined by this Commission in this or any other proceeding." (74 PUR NS at p. 422.)

This Commission's concern over the legality of diverting gas from the Austin Field to other than the Detroit District of Consolidated, as expressed in its order of January 27, 1948, *supra*, has been eliminated by Opinion No. 166 of the Federal Power Commission dated July 17, 1948 (Dockets G-620, G-1035, G-880, G-1013, G-1029, G-1023, and G-1031) and orders dated July 17, 1948, and August 6, 1948 (Dockets G-1023, G-1029, G-1031, and G-1013), in which the Federal Power Commission directs Panhandle to file new rate schedules which will clearly permit Consolidated to employ gas which it receives from Panhandle for use throughout its integrated system.

"IX. The completion of the Michigan-Wisconsin pipe-line project, designed to bring abundant supplies of natural gas to Michigan and scheduled for completion in the spring of 1950,

is remote and uncertain assurance of relief, *particularly in view of the fact that the validity of the certificate of convenience and necessity issued by the Federal Power Commission is being attacked in the courts with attendant uncertainty which accompanies all litigation.*" (Italics added.) 74 PUR NS at p. 422.)

While the completion of the Michigan-Wisconsin pipe line is still remote, this Commission's concern over the uncertainty of its ultimate completion, as expressed in the order of January 27, 1948, *supra*, has been largely eliminated by the affirmance on June 3, 1948, by the United States court of appeals for the District of Columbia of the Federal Power Commission's order granting a certificate of public convenience and necessity to the Michigan-Wisconsin pipe line authorizing the construction and operation of the proposed pipe-line system. Panhandle has now applied to the Supreme Court of the United States for a writ of certiorari under date of August 30, 1948.

There can be no question whatever but that the completion of the Austin-Detroit pipe line on May 12, 1948, effected integration of the so-called Western District and Eastern District of the Consolidated into a single utility system legally as well as physically. This Commission hereby finds as a fact that all of Consolidated's system served with natural gas with the exception of its Ann Arbor District constitutes an integrated utility system.

The Federal power Commission reached the same conclusion and made the same finding in its Opinion No. 166 dated July 17, 1948, in the Consolidated docket above referred to in the following language:

## MICHIGAN PUBLIC SERVICE COMMISSION

"In connection with this question it should be pointed out that the completion of the Austin Field line establishes for the first time a direct connection between the two districts and by means thereof large volumes of gas may readily be moved from one district to the other. What has heretofore been considered two districts has thereby become an integrated transmission and distribution system with several sources of natural and manufactured gas supply."

In the light of this finding, both by the Federal Power Commission and by this Commission, that Consolidated's Western District and Eastern District have now been integrated into a single natural gas transmission and distribution system, the language of Rule 18 upon which Consolidated relied in terminating service to the twelve industries in the Grand Rapids and Muskegon areas, must be considered in the light of petitioners' claim that it is discriminatory.

Rule 18 of the Rules and Regulations covering conditions of service in the Grand Rapids District as filed with this Commission May 23, 1940, and Rule 18 of the Rules and Regulations covering conditions of service in the Muskegon District as filed with this Commission July 1, 1940, are verbatim. Both contain the language heretofore quoted in this finding permitting the company in its option to limit its service for its industrial customers irrespective of the contracts in force. Rule 19 of the Rules and Regulations covering the Detroit District as filed

with this Commission January 27, 1941, is identical with Rule 18 covering the Muskegon-Grand Rapids Districts except for that paragraph above quoted permitting the company to discontinue service to industrial customers.

It is the finding of this Commission that the provision of Rule 18 permitting discontinuance of service to industrial customers in the Grand Rapids and Muskegon Districts is discriminatory against such customers of the company's integrated system in view of the fact that customers of the identical class in the Detroit District of the same integrated system are not subject to any such rule.

### ORDER

Accordingly, it is the order of the Commission:

1. That the Michigan Consolidated Gas Company shall forthwith reinstate service to industrial customers covered by this Commission's order of January 27, 1948, *supra*, and continue service to such industrial customers under the same conditions of service as other customers of the same class are served elsewhere in the company's system.

2. That on or before thirty days from the date of this order the Michigan Consolidated Gas Company shall prepare and file with this Commission amended Rules and Regulations covering conditions of service eliminating any and all discriminatory conditions of service as between customers of the same class wherever located in the company's integrated system.



# Industrial Progress

*A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.*



## Delaware Power & Light Plans \$18,000,000 Program in 1949

CONTINUING the expansion program started shortly after the war, Delaware Power & Light Company and system companies recently announced the authorization of more than \$18,000,000 for the improvement and extension of its facilities during 1949. This program includes projects to be undertaken throughout the entire Delmarva Peninsula by the company and its subsidiaries, The Eastern Shore Public Service Company of Maryland and Eastern Shore Public Service Company of Virginia.

This large expenditure will be used to increase generating capacity, for the extension and improvement of distribution lines, to rebuild and extend transmission lines, and to increase the capacity of substations, according to Stuart Cooper, president. The company will continue to extend its service to new customers everywhere throughout the Delmarva Peninsula and maintain dependable service to its present customers. Also included in these expenditures are funds of more than \$500,000 for the maintenance, expansion, and extension of gas facilities in the Wilmington area.

## Admitted to Partnership In Sanderson & Porter

DANIEL S. PELLETIER has been made a partner in the firm of Sanderson & Porter, engineers and constructors, after more than thirty years' service with the company. Mr. Pelletier joined Sanderson & Porter in 1917 as resident engineer and construction superintendent. He has been with the firm continuously since, in responsible charge of many large and important projects.

Mr. Pelletier was graduated from Rensselaer Polytechnic Institute in 1912 as a civil engineer and served the War Department, as well as the Alabama Power Company, before coming to Sanderson & Porter. He is a member of the American Society of Mechanical Engineers and also the Rensselaer Society of Engineers.

## Southern Natural Gas Increasing Facilities

SOUTHERN NATURAL GAS COMPANY is planning to construct and operate additional main- and branch-loop lines in Alabama for transportation of natural gas. Total over-all cost of the project is estimated at \$865,160.

Construction of the main-line loops is de-

signed to increase capacity of the company's system between Birmingham, Alabama, and Atlanta, Georgia.

## New Peak Load Plant Installed By Consumers Gas

A NEW peak load plant for fuel gas production was put into operation recently by the Consumers Gas Company, Reading, Pennsylvania. This installation, the second catalytic cracking plant to be installed in the United States, at present employs butane as a feed-stock and has a capacity of 5,000,000 cubic feet per day of coke oven gas substitute.

The plant has met its rated capacity and the exact interchangeability specifications of the gas. This plant was put into operation on the day originally scheduled. The Reading personnel were able to operate this plant entirely by themselves within a week's period.

The plant was designed and built by Surface Combustion Corporation, Toledo, Ohio, for United Gas Improvement Company. The

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Reading installation is similar to that built for peak load shaving at the Riverhead Station of the Long Island Lighting Company, in January, 1948. The end product of the process is different, being a coke oven gas substitute rather than the water gas substitute produced at Long Island.

### Coldwell Named President of Ford, Bacon & Davis

FORD, BACON & DAVIS, Inc., engineers of New York, Philadelphia, Chicago, and Los Angeles, announce the election, as of January 1, 1949, of E. S. Coldwell as president, succeeding James F. Towers, who will actively continue as chairman of the board of directors. Mr. Coldwell will at the same time succeed Mr. Towers as president of Ford, Bacon & Davis Construction Corporation, Monroe, Louisiana, a wholly owned subsidiary of Ford, Bacon & Davis, Inc. Mr. Towers will also actively continue as chairman of the board of the construction corporation.

### F. S. Williams Named Chairman ASA Sectional Committee

THE American Society of Mechanical Engineers has announced the designation of Frank S. G. Williams of New York, eastern manager of Taylor Forge and Pipe Works, as chairman of ASA Sectional Committee B-31, which is responsible for the American Standard Code for Pressure Piping.

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### New Everett Trencher Being Distributed by Tractor Sales

THE EVERETT MANUFACTURING COMPANY, Inc., Phoenix, Arizona, has placed the national distribution of the new Everett Trencher with The Tractor Sales Corporation, Los Angeles, California.

It is claimed this new trenching machine will equal the pick and shovel work of twenty-five men and that it is expressly suited for digging irrigation lines, water, gas, electric and sewer lines, for farm irrigation, housing project foundations, and kindred work.

New illustrated literature and full specification information is obtainable from The Tractor Sales Corporation, 1419 Santa Fe avenue, Los Angeles 21, California.

### Workman Appointed Consulting Gas Engineer by Ebasco Services

EBASCO SERVICES INCORPORATED announces the appointment of Dean M. Workman as consulting gas engineer in the planning, design, operation, and betterment of manufactured and natural gas systems.

Mr. Workman received his engineering degree from the University of Wisconsin in 1910. Since his association with Ebasco in 1937, he has been engaged in studies and investigations pertaining to all phases of gas operations, both of an economic and engineering nature. He has engineered many projects for a large and widely diversified group of gas utility operating companies, domestic and foreign, engaged in the production, transmission, and distribution of manufactured and natural gas.

His new duties will vary in scope from the study of a particular local problem to the planning of complete systems and the preparation of economic surveys and forecasts.

### Combustion Engineering and Superheater Merge

MERGER of two well-known power equipment manufacturers—Combustion Engineering Company, Inc. and The Superheater Company—was consummated recently by approval of the stockholders of both companies. It became effective on December 31, 1948, under the new name of Combustion Engineering—Superheater, Inc.

The original Combustion organization was founded in 1914, its products including Type E, Type H and Coxie stokers. Subsequently it absorbed other manufacturers of fuel burning equipment and several boiler companies.

The Superheater Company was organized in 1910 as the Locomotive Superheater Company, designing and building superheaters for locomotive boilers. Later, it expanded its line of products for locomotives and developed superheaters and other equipment for power plant boilers as well as marine and oil-country boilers.

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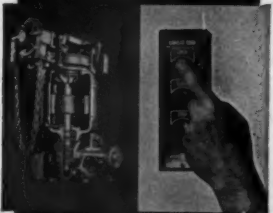
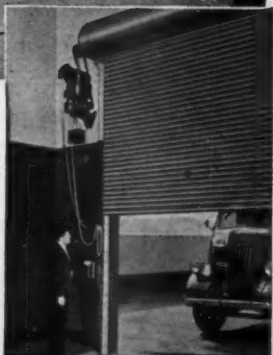
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and Superheater were identified with major new developments in steam generation. Combustion was chiefly responsible for the commercial development of pulverized coal firing of boilers, water-cooled furnaces, and completely integrated designs of steam generating units. Superheater pioneered in the development of superheater designs for higher steam pressures and temperatures. Both companies were identified with many of the installations which in the period from 1920 on set new standards of practice and performance.

### G-E to Supply Most of Equipment for \$50,000,000 Power Plant

GENERAL ELECTRIC will supply most of the power generating and transmission equipment for a huge new plant being built by the Pacific Gas and Electric Company at a cost of more than \$50,000,000 at Moss Landing on Monterey Bay, California.

When completed, the new plant's 300,000 kw will supplement the utility's present system covering 46 counties in Northern California. The system currently is being expanded in a postwar construction program which has cost over \$300,000,000 since V-J Day and which is proceeding at a rate of \$12,500,000 per month.

For the Moss Landing plant, General Electric will supply two 100,000-kw steam generators, one with a 129,375-kva generator, three 7500-kw, steam turbine generators, transformers; switchgear, pump motors; exciter sets for the turbine generators; fan motors; crane equipment sets; an elevator set; circulating water-pump motors; d-c excitation switchboard; a mechanical drive turbine and auxiliary equipment.

### Catalogs & Bulletins

#### Booklet Describes L&N Instruments

LEEDS & NORTHRUP has just issued a revised 34-page catalog describing all L&N instruments for measuring the temperature of generators, motors, condensers, transformers, etc.

For a copy of this publication, write for Catalog ND4-33-461, Leeds & Northrup Company, 4934 Stenton avenue, Philadelphia 44, Pennsylvania.

#### Catalog Sheets on Meter Sockets

ANCHOR MANUFACTURING COMPANY has recently issued two new catalog sheets on meter sockets manufactured by that company.

An illustrated four-page sheet shows the basic line of Anchor Series No. 9000 electric meter sockets. Explanatory sketches show method of conversion from vertical to horizontal mounting. Complete specifications are given.

A supplementary catalog sheet, Anchor Series No. 9900, shows the three-step method of changing from a four-terminal to a five- or six-terminal meter socket and requiring only one additional component part. Illustrations show wiring technique.

Copies of these bulletins may be obtained from the manufacturer, 30 Huntington avenue, Boston 6, Massachusetts.

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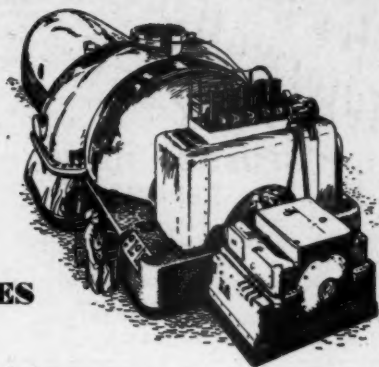
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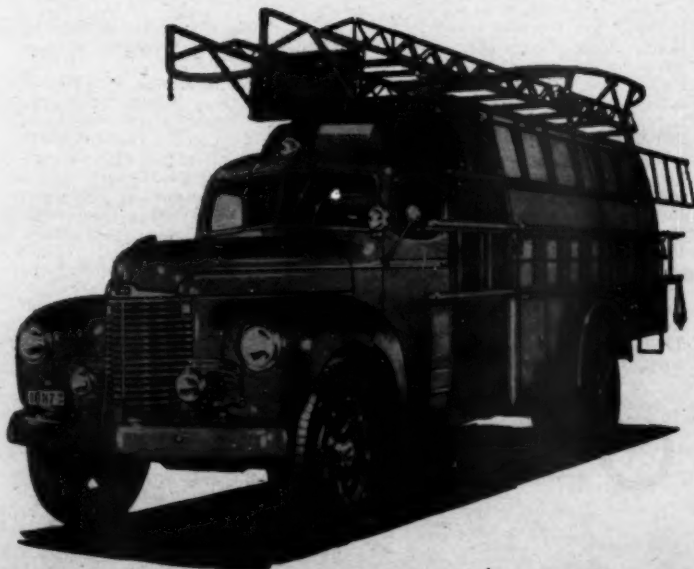
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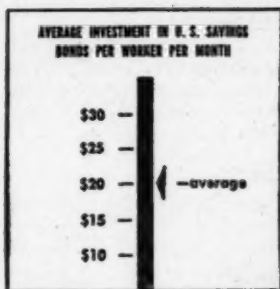
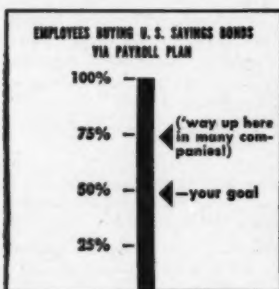


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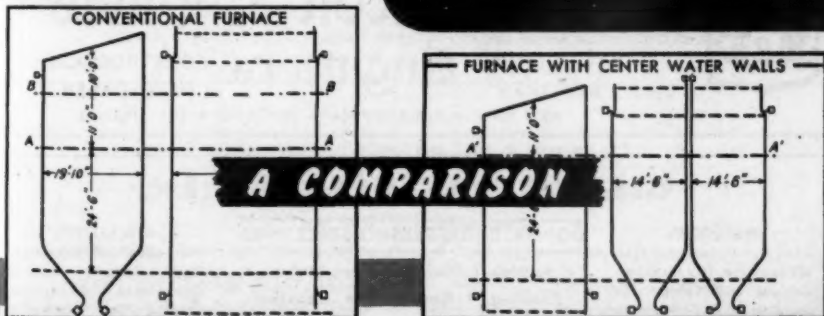
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RATE - R - 1

Kw.Hrs.	No.Bills	Consumption in Kw.Hrs.	CUMULATIVE		Consolidated Factor
			No.Bills	Consumption in Kw.Hrs.	
0	1644	0	1644	0	0
1	575	575	2219	575	343820
2	489	978	2708	1553	687255
3	449	1347	3157	2900	1030121
4	429	1716	3586	4616	1372528
5	413	2065	3999	6681	1714506
6	415	2490	4414	9171	2056071
7	434	3058	4848	12209	2397221
8	454	3632	5308	15841	2757937
9	418	3762	5720	19603	3078199
10	458	4580	6178	24183	3418043
11	391	4301	6569	28484	3757429
12	437	5244	7006	33728	4096424
13	469	6097	7475	39825	4434982
14	467	6558	7942	46363	4773071
15	491	7365	8433	53728	5110693
16	537	8592	8970	61420	5447824
17	542	9214	9512	71534	5784418
18	549	9882	10061	81416	6120470
19	541	10279	10602	91695	64555973
20	605	12100	11207	103795	67909355
21	595	12495	11802	116290	71255292
22	607	13354	12409	129644	74590344
23	602	13846	13011	143490	77922809
24	654	15696	13665	159186	8124762
25	600	15000	14265	174186	8456661
26	658	17108	14923	191294	8787960
27	653	17631	15576	208925	9118507
28	734	20552	16310	229477	9448589
29	692	20068	17002	249545	9777843
30	726	21780	17728	271325	10106405

290	451	130790	281885	37899547	56366457
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801	900	1460	1234673	63810139	67509139
901	1000	1026	975139	64783278	67867278
1001	1200	1133	1299888	66083136	68332336
1201	1400	607	781300	66864436	68662036
1401	1600	409	609631	67474067	68874067
1601	1800	232	391658	67865725	69023125
1801	2000	176	353132	68198857	69132857
2001	2500	232	510458	68709318	69296818
2501	3000	97	261402	68970717	69384717
3001	4000	76	260083	69230800	69478800
4001	5000	38	167649	69398449	69518449
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6001	7000	7	45379	69503117	69548117
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